

FAR EASTERN ECONOMIC REVIEW

VOL. X

Hongkong June 14, 1951

No. 24

CONTENTS :—

	Page		Page
A Measure of International Agreement	745	India's Foreign Trade in 1950	763
British and American Unity	747	Singapore Stock & Share Market Report	765
Japan's Economy in 1950	748	Comet Jet Airliner & B. O. A. C.	766
Netherlands Trading Society	762	Thirty Years of British Civil Aviation ..	766
		Hongkong's Police & The Colony's Internal Security	768
		North Point Wharves, Limited	775
		Hongkong Commodity Markets	775

A MEASURE OF INTERNATIONAL AGREEMENT

By E. Stuart Kirby.

Last week's article on "this page, asking "Is there an International Plan?", outlined the progress made in the post-war period by the United Nations, in providing a broad and effective structure of international co-operation in economic and social affairs. A number of appropriate organisations have been set up; they have gained experience, and have achieved a degree of co-ordination which has brought practical results. The criticism of those who imagine that all this is a waste of resources, on activities which are theoretical or unproductive, is both misplaced and ignorant.

It was further stated, in the preceding article, that a significant measure of codified agreement has been reached on international aims in the economic and social spheres, and on procedures for their realisation in practice. These matters are necessarily somewhat technical, and the formulations are still perhaps in the preliminary and tentative stages; but their importance must be understood.

* * *

The essential commitments, in this connection, are contained in the United Nations Charter, which is the basic pledge of all the member States. Article 55 in the Charter specifies the following economic objectives, placing them firmly in the broad context of peaceful international relations, respect for fundamental rights and liberties, self-determination of peoples, etc.:

"The United Nations shall promote: Higher standards of living, full employment and conditions of economic and social progress and development."

Article 56 states: "All Members pledge themselves to take joint and separate action in co-operation with the Organisation for the achievement of (these) purposes."

After the first post-war years, when the United Nations Agencies had necessarily been working largely ad hoc, the need for clarification of the essential aims became very pressing. In

August, 1949, the Economic and Social Council of the U.N. (ECOSOC) appointed a group of experts to suggest "national and international measures for full employment." Members of the group were Prof. J.M. Clark (Columbia), Prof. Smithies (Harvard), Mr. N. Kaldor (Cambridge), M. Uri (French Government) and Mr. Ronald Walker (Australian Government) (Chairman). Their Report (referred to as the "Experts' Report") published at the end of 1949, with the subsequent discussions in last year's Eleventh Session of ECOSOC (July-August, 1950), will here be discussed in outline.

Three basic problems were considered, which are very closely connected: (i) the question of "full employment," (ii) the economic development of "backward" countries, and (iii) international agreements on basic commodities. The Report is divided accordingly into three sections. The extent and nature of these problems were defined; agreement followed as to how and why they are interconnected. A "continuing programme" was agreed, in the shape of definite measures to be proceeded with, in order to secure the three main objects stated above. Finally, there was agreement on "compensatory measures," not part of the projected programme, but held in reserve, to be brought into use as and when employment falls off from the "full."

The degree of unanimity on these formulations was quite remarkable. (a) There was agreement in these respects between the different parties and wings of opinion, in all the non-Communist countries. Conviction of the need for social regulation, social security and a "planned" economy (i.e. in the sense here given to the term, one shaped by a conscious overall policy) is not nowadays a contention of the left-wing; it is now fully endorsed by the Conservative and Centre parties and groups also. (b) A similar measure of agreement applied also internationally, among the progressive Western nations; all the States represented concurred on these points. In this respect, the 11th Session of

ECOSOC may be said to be a landmark, in the progress of contemporary thought, comparable perhaps with the famous Beveridge Report, which first blazed this trail about eight years ago, and made Britain the great pioneer of social improvement in the twentieth century, with civic services unmatched anywhere in the world. It is only necessary to think back, to some 15 or 20 years ago, when such expressions would have been described as the height of Keynesian fantasy, or as visionary socialistic dreams, to realise the extent of the present revolution of ideas.

* * *

The Report considers unequivocally that the measures in question can be applied without any basic change or interference in the economic institutions of free-enterprise countries.

The first step is to define full employment. There are three main kinds of unemployment. The first is due to a lack of capital equipment, or other complementary resources, necessary to keep the wage earners at work. In the underdeveloped countries, this is the primary problem, and is mainly due to capital shortage; there it takes the form of largescale underemployment. Typically, this does not emerge as urban employment, but is shown by the fact that a large part of the population could be diverted from agricultural occupations without any decrease in agricultural output. In highly developed countries, this type of unemployment is accidental and short-lived: it might occur, for instance, after bad weather conditions, or through balance-of-payments difficulties restricting the purchase of essential materials. Policies of economic development and policies of full employment, it is here noted, are essential complements of each other.

The second main cause of unemployment arises from certain structural features of the economy, such as seasonal fluctuations in agriculture, or irregular market conditions in some industries. There is also "fictional unemployment," when workers leave one job and seek another. Policies which increase effective demand will in themselves substantially reduce this type of unemployment. Supplementary measures are however

suggested; alternative occupations should be provided, in the case of seasonal trades, and the mechanism of labour exchanges, information and advice through trade unions, assistance to migration, etc., will smooth out the 'frictional' unemployment. These are of course major functions of the International Labour Organisation, which is working extensively in these and many other fields.

The third major cause of unemployment in industrialised countries is "the insufficiency and instability of effective demand." "Full employment may be considered as a situation in which employment cannot be increased by an increase in demand." The problem of effective demand is then theoretically considered; it depends on such matters as the completeness and regularity of the flows of income and expenditure, the fluctuations in production and employment, the obstacles to mobility of resources locally and internationally.

* * *

The second part of the Report discusses the ways and means of securing full employment. Full employment policies are considered separately in their domestic and international aspects.

A fundamental point made here, in taking the domestic aspect, is that the immediate or proximate cause of instability is fluctuation in capital expenditure, especially business investment in fixed capital (or inventories) which may be of a "self-generating" character. Stabilising the level and rate of investment would therefore do much to solve the problem of instability. The out-and-out Socialist State does this quite arbitrarily; but in free economies stability in private investment can only be promoted by indirect measures of control. Nor is it only a question of industrial capital investment; individuals in the free economy may also spend on durable consumer goods, with much the same effects as if they spent on producer goods.

Quantitative restrictions (e.g. building permits, quotas of essential materials, etc.) work comparatively well so long as the current demand for capital goods exceeds the effective supply. Monetary methods of control (e.g. variation of interest rate and credit conditions) are likewise fairly effective in placing an upper limit to investment. In the case of a downward movement, however, if the pressure of demand on supply was reversed in a future slump, neither of these two sorts of measures would be appropriate.

Two other ways are, however, noted in which the government can influence investment. One is to influence the timing of investments, through special tax incentives, offering concessions to firms willing to postpone investment in an agreed manner. This is probably impractical or undesirable. The other is to offset fluctuations in private investment by countervailing fluctuations in public investment. If the "public sector" comprises a wide range of utilities and ser-

vices, this is an effective principle. Most countries are now building up and improving their "methods of forecasting the movement of each strategic component of the national expenditure" and schemes of public investment for application as and when required. "There can be little doubt" says the Report, "that private enterprise economies could accomplish far more in this direction than was thought possible in the past."

Even if fluctuations in investment demand itself were not eliminated, total effective demand could alternatively be stabilised by fiscal methods. Taxation can be raised or lowered, in accordance with the level of consumers' demand. Some government expenditures (e.g. subsidies on consumer goods, or transfer payments such as family allowances and unemployment benefits) can be varied inversely with the general level of consumers' purchasing power.

* * *

The above are "domestic" measures, mainly practicable at present in the industrialised countries. The extent of governmental and national progress in the now underdeveloped countries, in the future, will largely be measurable by the extent to which they can contemplate such sweeping and exacting responsibilities themselves. Meanwhile, stabilisation in the advanced countries would in itself do much to secure the economic safety of the more backward countries.

Additional measures are however proposed internationally, to secure that end more quickly. The need is recognised for stabilising agricultural incomes generally, but first and foremost those of primary producers in the non-industrialised countries. Worldwide commodity schemes like the International Wheat Agreement should be extended. This should be a normal and permanent feature. Irregularities and disparities in international trade must also be eliminated. It is recommended that all countries declare the general character of their longer-trade policies, state their objectives over some normal period, such as that of five years, in terms of quantities they expect to import and export and of the results in terms of balance of payments; they could then confer together, eliminate or adjust inconsistencies, and arrive at an agreed trade pattern. The required pattern of capital investment, on a worldwide scale, could thereafter be calculated far more realistically. Continuous contact would be necessary, to carry on this understanding permanently.

It is recommended that the functions of the International Bank (IBRD) be extended, to enable it to lend to governments (or borrow from governments) for general developmental purposes "not only in special circumstances but generally." A special department is proposed, which would in effect be a distributing agency for loans of this type. The U.N. Technical Assistance conception is fully endorsed. The functions of the International Monetary Fund (IMF) it is suggested, should also be

extended; a scheme is propounded in detail for linking purchases of exchange, and advances by the Fund, to movements in the export-import balance of individual countries, as a matter of automatic adjustment.

Finally, longer-term measures for the "stabilisation" (properly, the steady expansion) of international trade are discussed. After the initial agreement mentioned above, by which present obstacles might be removed and the proportions of the main "flows" logically established, it is necessary to elaborate procedures and principles for ensuring that these flows remain smooth and harmonious thereafter. The main emphasis here is on the international control, or "offsetting," of any tendencies to inflation (or deflation), which tend to be heavily cumulative, in the international sphere. This, therefore, is linked particularly with the preceding recommendations about the IMF, which should control the operation of international reserve funds in this sense.

* * *

The discussion at the ECOSOC Session was interesting. Mr. Gaitskill, the British spokesman, fully endorsed the Report, the principles of which were fully applied in Britain. He laid stress on the compensatory measures, the necessity for having the machinery of adjustment ready to meet any future difficulties. Mr. Lubin, for the United States, similarly endorsed the Report and equated its principles and procedures with those already effective in the U.S.A. He stressed, however, in contrast perhaps to the British representative, the "continuing program" of basic and permanent measures, as prior to the "compensatory" devices, which would apply only in emergency. He declared that the American people would not again tolerate a major depression; but emphasized that its prevention was a matter of international, and not merely of domestic, concern.

Representatives of India and Chile stressed the special needs of the underdeveloped countries; one of the authors of the Report agreed that underemployment in such countries is "the most serious economic problem which faces the world; the Report should not have dealt with it as a secondary question."

Three main resolutions were passed unanimously, embodying the main recommendations touched on above—International Commodity Agreements, the financing of Economic Development, and Full Employment Policy.

* * *

This very short outline may serve to give some idea of the actual extent and nature of international agreement and co-operation. In technical application of all this, as well as in abstract thought, immediate progress could be made. There are two obstacles to it, which unfortunately gained strength in the nine months since the Session ended. One is the further withdrawal, from

BRITISH AND AMERICAN UNITY

When two nations are fully aware of their dependence upon each other politically and economically, propaganda has a hard struggle to do more than ruffle the surface of their joint existence. This is emphatically the case in so far as Britain and the United States are concerned. Their partnership—intellectual, moral and political—precludes any lasting success to propagandists, whose aims are directed towards breaking up a union which constitutes the only real barrier against communism and world unrest.

Although serious division is unthinkable, criticism between the two nations cannot and in fact should not be avoided; but it is well to hold this within reasonable limits and to be sure that any censure expressed does not rebound nor create resentment and suspicion. The storm of condemnation which has been raging around Hongkong in regard to the Colony's trade with China, is an example of hasty criticism and of action which benefits no one. Washington, in an access of righteous indignation, resolved to bar all goods to Hongkong whether strategical or otherwise, regardless of the serious consequences of such a decision to factories and merchants, not to mention the thousands of workers who are closely concerned. The storm, it is hoped, is now dying down to a more realistic point of view following the statement recently made by Mr. Dean Acheson that "to have Hongkong fall, to have it go over, fall into the hands of the Chinese, would, I think, have a very adverse influence on the United Nations' interest and on ours in the Far East." Mr. Acheson further expressed himself against the cutting off of all trade between Hongkong and the Chinese mainland, and acknowledged that the Colony depended upon China for its food and other necessities and could obtain them only by trading.

From these frank statements it can be seen that the American Secretary of State is fully aware of the importance of Hongkong and slowly but surely this must also dawn upon the American public and the Washington Senators concerned. Indeed the stones which have been thrown with such vigour have had somewhat of a boomerang effect with

the disclosure that Japan whose trade is the close concern of the occupation authorities, has shown a surprisingly flourishing relationship with China. As was recently pointed out, Japan exported US\$8,106,000 worth of commodities to China during the July-October period of last year while receiving from that country goods amounting to US\$16,496,000. These figures were compiled in America, so that they can be taken as being fairly accurate and definitely refute the assumption that Britain is the sole transgressor in supplying China with such essentials as could presumably be used against the United Nations army in Korea.

Trade is a question of "must" rather than a matter of choice. It cannot be eliminated, although no one would venture to suggest that it should remain entirely uncontrolled. Sympathy is therefore extended to Washington for the task facing the Government in obtaining equitable controls.

Some of the suggestions put forward by certain members of Congress are however, far from helpful and extremely one-sided. Unless they have been wrongly reported, it would appear that they are taking the attitude that countries must all toe the line, "or else." This "or else" being a threat to withdraw all American aid both military as well as economic. While it is obviously one-sided. Unless they have been communism must co-operate to the best of their ability on this question of trading with countries behind the Iron Curtain, threats of this nature do no good. Should the United States withdraw all military or even economic aid from any particular country, that country must automatically become an extremely weak spot in the democratic defence plan. In fact it might cause the whole defence structure to crumble up, especially as withdrawal of aid might force the country concerned into a position where refusal to submit to communist demands would become impossible.

It is regrettable that such a short-sighted view could be the result of a three-months investigation of the problems involved in controlling world-wide shipments to satellite countries. President Truman, who is apparently able to analyse the question from a broader point of view, has sternly condemned the policy now put forward threatening the cutting off of economic aid as a retaliation to trading with potential enemies. He is in a position to visualise the consequences of any such attitude and will naturally oppose it with all the force in his power. Unfortunately the ordinary citizen is usually unaware of all the intricacies of trade and when Hongkong was accused of dealing with the enemy the American man in the street and some of those who should have known better, could only visualise a group of British people battering on the Korean war. Indignation naturally rose and hard words were spoken, but these people did not perhaps grasp the fact that a large proportion

of the goods then passing through Hongkong were made in their own factories. In fact statistics show that in 1950 British shipments to Hongkong totalled US\$70 million as against US\$107 million which came from the United States.

Arising from this distorted view of Hongkong's trade it was an easy step to hint that Britain was in general not doing the utmost in her efforts to combat communism. It was perhaps this attitude more than all others which touched the British people on the raw. No nation in the world has suffered privation to the extent or for so long a time as has Great Britain since the end of World War II. It was only a few months ago that rationing became easier though not entirely eliminated and today restrictions are being clamped down once more; so much so, that visitors to the United Kingdom from the United States who intend spending some time in the country are again making enquiries as to the advisability of safeguarding their personal comforts so far as possible by arming themselves with plentiful supplies of food. This has been the custom for so long that it has ceased to provide comment, although in connection with the Festival of Britain every precaution is being taken to see that visitors from abroad are well catered for.

Not only has food in Britain been short but the people stand higher to-day in a comparison of the world's taxation than do those of the United States or almost any other country. What is more important, however, at the moment is that Britain to-day has the same number of men in occupied territory, fighting, or on guard duty as the United States, whose population is three times as large. America is concentrating her fighting force mainly in Korea whereas Great Britain has her forces dispersed in 19 countries. This notwithstanding, as a gesture of good faith another 4,000 men from Commonwealth countries are being equipped to be sent to Korea to augment the forces already there. The British, it should not be forgotten, have also been fighting a deadly jungle warfare for over three years and are still fully occupied in that direction. In spite of this drain upon manpower, production in Britain has increased by 50% and exports have risen by 70%, this latter having been achieved by increased privation in individual homes.

It should again be reiterated, that while it is necessary to rebut the charges voiced so frequently by malicious propagandists that Great Britain is not doing her part either in the Korean war or in her defence preparations against possible communist attacks, the friendship which has existed between the two great nations of the world—the British Commonwealth and the United States—cannot be broken. It is essential that Washington, especially at this crucial moment in the world's history, not only take precautions that accusations which can only lead to resentment and bitterness, are not spread but that Congress and sub-committee members should face

this community of purpose, of the various Communist countries. The second—a result of the first—is that the other countries have had at last to engage in rearmament, on a scale to match the Russian power; they have accordingly relegated, to some extent, considerations of Economic Development which played such an important part in the previous consensus of opinion. They would be well advised to restore any cuts under this heading, or to cancel any postponements. The goodwill aroused, and the common understanding, which has been reached, are real advantages which should on no account be dissipated.

JAPAN'S ECONOMY IN 1950

(I) GENERAL REVIEW

It was anticipated that Japan's economy in 1950 would traverse a thorny path, confronted by various difficulties with the strict adherence to the government disinflationary policy continued from the previous year. After the middle of the year, however, the outbreak of the Korean war and the successive drastic changes in the international situation introduced an unexpected alteration in the country's basic economic condition, and finally with misgivings about an inflationary tendency, even the resumption of economic control came to be discussed. Such an unstable sentiment prevailing the home economy consequent on the changes in the international situation is, of course, not confined to Japan alone, but the consequences would be much greater to Japan's economy, now subject to various abnormal factors, due mainly to the fragility of the country's economy.

Special economic features during the first half of 1950 were the general stagnancy due to the stabilization programme, the concrete development of which, known as the Dodge line, enforced since the beginning of 1949, realized considerable results in stabilizing the post-war inflation and contributed much to economic rationalization. On the other hand, however, aspects of the stabilization crisis have been gradually growing tense in the readjustment of economic organization. Besides, exports did not increase as expected due to the world trade depression mainly caused by a recession of the U.S. trade. The execution of the super-balanced budget, based on the Dodge plan, a serious effect in various business circles which had till then depended much upon deficit financing, and the Reconstruction Finance Bank loans. To cope with this situation, enterprises entered into a production competition aiming at the curtailment of production costs, which naturally brought about an increase of stock piles, credit sales and outstanding account, owing to the narrow scope of the home market. In the meantime, a temporizing measure for financing the stocks on hand under the name of increased operating funds was introduced. But this makeshift, of course, could not contribute to a solution of the problem, and the critical situation of smaller enterprises became more and more aggravated with the enforced tax collection and increased outstanding accounts receivable from larger enterprises for their subcontracted work. Under these circumstances, the cases of enterprise readjustment amounted to about 700 to 800 every month, the greater part of which was oc-

cupied by those enterprise employing less than 200 workers. On the other hand, production has gradually been concentrated in large enterprises, the funds to mitigate their difficulties being furnished indirectly by the government and the Bank of Japan in the following ways; a lowering of the money rate by 0.2 sen (daily rate for each 100 yen); the granting of credit for short-term funds by the Bank of Japan through the non-conditional purchase of national bonds from city banks; the deposit of Treasury surplus funds and the Deposit Bureau funds with city banks; and the release from the Counterpart Fund toward the year-end, etc. However, the fundamental needs of these enterprises were the acquisition of long-term industrial funds for the repair, rationalization and extension of equipment. The accumulation of capital, which had been emphasized until that time through the monetary inflation and the RFB loans, was changed under the Dodge line, and the financing of equipment funds came to be effected by operating the national debt redemption fund, the Counterpart Fund and the Deposit Bureau funds. This, however, did not proceed smoothly on account of the nature of private commercial city banks and the time-gap in the distribution of the Counterpart Fund, etc. Thus the importance of raising net capital by enterprises increased, driving them to depend more upon the long-term fund market. The digestion of new issues for increasing capital was limited by the general decline of purchasing power and competition with the securities released by SCLC. On the other hand, the issue of corporate debentures, showed fair results with the help of the market operations of the Bank of Japan, the actual debenture issue and share issue during the first quarter (Jan.-Mar.) 1950 being 12.2 billion yen for the former and 5 billion yen for the latter, or a total of 17.2 billion yen.

In the meantime, the Bank of Japan note issue continued at the 310 billion yen level and prices generally were stabilized, with no big change between the increased official prices and the lowered black-market prices. As to foreign trade, although there were some indications of a recovery with the successive conclusion of trade agreements based on the Logan idea, they alone could not serve to influence a general business recovery, and a demand for an amendment of the government policy^{*} was presented from various quarters.

The stimulus given to the country's economy by the Korean war was considerable.

The direct stimulus was the special demands from ECA and the Far East U.S. army, which brought about an increase in effective demands of equal significance to exports to dollar areas, resulting in the disposal of the big stock piles. It was the turning point to resuscitation particularly to the mechanical industry which had been suffering from severe depression. Special demands contracted during the period from June 26 to December 17^{*} totalled 172 million dollars, of

which 115 million dollars was for commodities and 57 million dollars for services.

Combined with these special demands, the shifting from a buyers' to a sellers' market in overseas countries, in anticipation of armament expansion, brought about a sudden increase of Japanese exports, which had been comparatively stagnant in the first half of the year, barely maintaining the level of 50 million dollars per month. Advancing over the monthly average of 70 million dollars in the second half of the year, the annual total is expected to exceed 750 million dollars.

Although the promotion of exports is essential, in view of the present economic structure of Japan, a smooth import of staple raw materials must be firmly assured to support them. With the recent tension in the international situation, all countries throughout the world began to hasten the purchase of armament goods and livelihood necessities, which has tightened the demand-supply conditions and accelerated a rise in international commodity prices. Besides, the intensification of economic controls in the U.S., based on the recent declaration of an emerging situation, and Communist China's retaliatory stoppage of exports to the U.S. and Japan, combined with Japan's lack of shipping tonnage, have cast a gloom over the future of the country's import trade.

The monthly average of actual imports which was 93 million dollars in April, later declined to the level of around 60 to 70 million dollars. In order to cope with this situation, various measures were taken, such as the increase of foreign currency estimates based on an emergency import programme; the compilation of the long-term foreign exchange estimates aiming at trade contracts in futures; the extension of the scope of application of the automatic approval system for imports; and the establishment of the "usance" bill system, etc. Thus, as a fair increase in the arrival of imports is expected in the early months of 1951, much consideration was given to trade finance. The Finance Ministry, taking the promotion of imports as one of the basic economic measures for 1951, formulated a tentative plan for an additional increase of emergency import funds through the medium of the Bank of Japan loans, and negotiated with other authorities concerned for its early realization, but the final decision on the plan was carried over to 1951.

The effect of the special demands and export increase after the Korean war upon the country's production was manifested in October, when the stock piles were almost disposed of. According to the index compiled by GHQ (base 1932-1935), production in October registered 106.3 per cent, an increase of about 9.5 per cent over the previous month, surpassing the pre-war level and recording a postwar high. As already mentioned, the production increase before the Korean war had inevitably brought about the accumulation of stocks, which, through a for-

the situation squarely. Idle threats which can only lead—even if it were possible to carry them out—to further disaster, are indications of a weakness and a lack of united policy which if true would rejoice the hearts of those arrayed against the democracies. For this reason if for no other Mr. Acheson's frank statement of policy vis a vis Hong-kong is much to be commended.

tunate chance, served as an important factor in meeting immediately the special demands after the outbreak of the war, without suppressing home demands.

Among industries, the most favoured after the outbreak of the Korean war was the mechanical industry. Special demands for machinery contracted during the period up to the end of December totalled 34.4 million dollars. The production of machinery recovered from 94.3 in May to 127.5 in October. The iron and steel also presented a favourable aspect. Mainly because of export activities of cotton yarns and fabrics, the production of textiles increased as well.

Contrary to this production upswing, a quantitative shortage of raw materials began to be felt, which naturally caused a rise in prices of these materials.

Reflecting this situation, loans by city banks increased. Combined with the excess-withdrawal of government funds, this brought about a slowing down in the increase of deposits with city banks, the ratio of deposits to loans as at the end of August registering the high rate of 95 per cent. Hence, the overloan tendency came into question, which was after all assumed to be due to the unsmooth investment of forced savings through taxes under the Dodge line and the scanty capital accumulating power of the country's private interests, there being no other means than to resort to bank loans for making up deficits in their net capital.

On the occasion of the 3rd visit of Mr. Dodge to Japan, and as a result of his careful survey of the country's money and finance policy, he advocated the tightening of State finances, both in the revised budget for 1950 and the preliminary budget for 1951, on the lines of his former policy. On the other hand, however, he permitted the release of long-term funds, an extension of the scope of small enterprises to be financed from the Counterpart Fund, investment in the export bank from the Counterpart Fund, and the acceptance of bank debentures with Deposit Bureau funds, etc., affording a solution to the pending question.

At this time, however, when the possible stoppage of US aid to Japan is reported and the necessity for a self-supporting economy is increasing, particularly amidst the recent difficult international situation, the promotion of capital accumulation power is an urgent problem. In response to the demand for the realization of savings promotion measures, the government, it is said, is considering the abolition of tax on reserve funds of legal corporations, the resumption of the re-evaluation of corporate assets, and a revival of the investment trust system, to strengthen the security market. However, crux of the problem is not only the accumulation of monetary capital, but also the expanded reproduction process. Therefore, the modernization of equipment for intensifying the organic structure of capital will be the key point, and for this purpose, the elevation of productivity is an essential factor.

With the outbreak of the Korean conflict, the price level advanced, maintaining a strong tone with increased demands and speculative buying, stimulated by the international price advance. The price

advance in producers' goods was particularly sharp. With the rise in price of iron and steel, non-ferrous metals, textiles, timber and fertilizers, the tendency toward a higher price for raw materials and lower price for products was generally intensified, and fears against the return of inflation have gradually gained ground. Furthermore, with the recent intensification of economic controls in the U.S., discussions about a return to the control system have increased.

Considered from one angle, the increased issue of the Bank of Japan notes is a reflection of the country's economic activity backed by actual business transactions, and is naturally different from the artificial creation of purchasing power through the issue of national bonds. If, however, the demand and supply conditions become unfavourable by unsmooth importation, inflation might develop. The government policy now being demanded differs greatly from the measures taken in the past.

With the visit of the Dulles Mission to Japan for consultations on a Japanese peace settlement, the question of rearmament has come to have great significance, and developments will be watched with keen interest, because of the importance which it will have on the country's economic reconstruction.

II FOREIGN TRADE

Japanese post-war foreign trade recovered gradually from a condition of collapse at the time of the surrender. In 1949, favoured by the adoption of an export promotion policy, including the establishment of a single exchange rate, aiming at the economic self-support of Japan, both exports and imports made rapid progress, amounting to 510 million dollars and 906 million dollars respectively for the year. Compared with the pre-war level (yearly average of 1930-34), however, exports were only 32 percent as against 88 percent of imports. The outlook appeared dark for the attainment of economic self-sufficiency because of the envisaged import excess totalling 497 million dollars. The lopsided state of trade with the U.S. also could not be avoided, as the imports from the dollar area still accounted for 76 percent of the total value, though the situation improved to some extent.

Despite the unfavourable trade conditions caused by the devaluation of the pound sterling, the trade target for 1950 was fixed at 620 million dollars for exports and 1,100 million dollars for imports, in anticipation of an expansion of activities due to the conclusion of trade agreements with the pound sterling area and Western Germany and the conversion of trade policy. At the same time, a change-over in import structure, from dependence on the dollar area to the sterling area, was envisaged. The Logan plan, which was the backbone of the trade policy through the first half of 1950, had the following key points: (1) the import priority system as a prerequisite to enhance exports, (2) a change-over from the dollar area to the non-dollar area for those imports financed by aid funds, and (3) an enlargement of trade

under swing accounts, providing also for a shift of both exports and imports from governmental control to a private basis since January 1950. This procedure was legalized by the promulgation of the Foreign Exchange and Trade Control Law, the gist of which was, (1) the creation of a budget estimate for foreign exchange, (2) simplification of import procedure, and (3) stress being put on the control of imports through a foreign exchange budget.

Imports developed favourably from the beginning through the first half of 1950, attributable to the import priority policy based on the Logan plan, and amounted to 93,130,000 dollars, the highest figure for 1950, in April as against 73,760,000 dollars in January, while exports made but slow progress from the stagnation prevailing in January, totalling 61,270,000 dollars in April. Thus, the monthly import excess registered no less than 3 million dollars. Up to the end of March, the import excess for trade with the sterling area reached 11,800,000 pound sterling (exports 38,340,000 and imports 50,140,000 pound sterling). In trade with Western Germany, the import excess totalled 2,013,000 dollars (exports 289,000 and imports 2,302,000 dollars) up to the end of March. The total import excess in the Open Account reached 4.4 million dollars, of which 2.4 million dollars were unregistered and exceeded the "swing" account limit of 3 million dollars stipulated in the arrangement. Such an unfavourable balance of trade made it clear that the import-priority principle could not work unless exports were increased.

Success of the import-priority system in the Logan plan depended mainly on the mutual parties to the trade agreement. However, there is a worldwide tendency toward forming economical blocs. Particularly, the sterling area is strengthening import restrictions to tide over its dollar shortage. For example, India, one of the important markets for Japanese products, has suspended the O.G.L. import from Japan since April, 1949, while permitting it to countries in the sterling area, and the only Japanese goods India has imported since March, 1949, comprise rayon yarn. Due to the shortage of pound sterling caused by such an unfavourable balance of payments with the sterling area, the suspension of the issue of letters of credit was inevitable. Thus, the Japanese government in March announced the temporary suspension of imports from the sterling area, excluding such important commodities as rice and raw cotton, etc., until the pound sterling holding position could support letters of credit. It was decided to substitute imports from the dollar area for those from the sterling area in the Foreign Exchange Budget for the period of April-June.

Under the circumstances, imports, with a peak of 93,130,000 dollars in April as a turning point, indicated a market decline thereafter, to 72,820,000 dollars in June and 62,910,000 dollars in July. On the other hand, exports showed a gradual increase, totalling 65,820,000 dollars in June, the increase being most pronounced

in textile manufactures, attributable to the permission granted for the import of Japanese rayon yarn by India from March and by Pakistan and Malay from April, and to the increased purchase of Japanese cotton cloth by the U.K. to be processed and exported to her colonies.

Another key point in the Logan plan was an enlargement of trade by agreement. Following the conclusion of trade agreements with the sterling area and with Western Germany, several others were signed successively, i.e. with Thailand, Pakistan and Burma in March and with Sweden, South Korea and Philippines in April. Moreover, the agreement with the sterling area was extended from June until a new agreement was concluded. However, as the party countries to the agreements were reinforcing their import restrictions and exchange controls because of a dollar shortage, as already stated in the trade with the sterling area and Western Germany, the promotion of export through trade agreements could not be expected. In view of this situation, the adoption of a multilateral settlement plan and free exchange of currency was required in order to remove fundamental obstacles in trade, such as import restrictions and exchange controls.

Foreign trade since the outbreak of the Korean war is characterized by the remarkable advance in exports and a stagnation in imports. While since June there had already been witnessed a new phenomenon of increased exports to the dollar area, particularly for non-ferrous metals, stimulated by the purchase of copper and zinc, etc. by the U.S. government, and a resultant price advance, exports made further remarkable progress not only to the dollar area but also to the sterling area (centering on textile manufactures) since the outbreak of Korean hostilities, reflecting the world-wide tendency to expand armaments, (excepting the gradual decrease in exports to the sterling area since August), reaching 71,930,000 dollars in September and 82,570,000 dollars in November from 63,020,000 dollars in July.

On the contrary, imports continued to slump greatly, stagnating at the 60 million dollars level, and at last in November reaching 89,950,000 dollars favoured by the governmental import promotion policy. As a result, an export excess was registered since July (excluding November) for the first time since the termination of hostilities. With dollars received for supplying special military demands added to the export excess, the foreign currency holdings totalled 300 million dollars as at the end of November, mainly attributable to the export control imposed by the U.S. to meet the change in the world situation, the defect in the Japanese exchange control, the small trade value and narrow swing accounts stipulated in the trade agreement and the shortage of bottoms, etc. Although this development had a favourable effect on Japanese economy, yet, on the other hand, it brought about a new difficulty, in that Japanese economy depends upon the importation of raw materials and the exportation of products thereof. Japan particularly depends to a high degree on the U.S., and the enforcement of her

export control is anticipated to make difficult the acquisition of raw materials and, consequently, to check the advance of exports.

The allotment of American raw cotton for Japan was decided at 550,000 bales for the period of August 1950—March, 1951. During the period, the supply of raw cotton is estimated at 1,530,000 bales as against the estimated consumption of 1,180,000 bales, stocks being 350,000 bales at the end of March. During the period of April-June, 1951, the supply (including the stock carried over) is estimated at 460,000 bales of the estimated consumption. In case no additional allotment of American raw cotton materializes, stocks will be most critical for the industry, in view of which, the government is scheduled to import raw cotton from other countries. There has, however, been a declining tendency in exports to the sterling area since August because of the shortage of textile manufactures for export, and the import of raw cotton from the area became difficult due to the lack of pound sterling funds. The securing of materials for export commodities has now become an urgent issue.

There are other reasons for the promotion of imports. The increase in exports to the dollar area since the commencement of Korean hostilities, as a result of which dollars have been accumulating, has made difficult the financing of the Foreign Exchange Special Account and the Account Debt to the Bank of Japan reached almost the limit of 50 billion yen, leaving only 2.5 billion yen available as of September 7. With a daily excess payment of 700 million yen of the Account, the loan available within the limit is sufficient to meet only three days' excess payment. Thus, the lack of yen funds was feared to act as a check on exports.

As already stated, recent foreign trade serious situation, the government adopted the automatic approval system on imports and created a long-term Foreign Budget. Also, at the end of September, the usance bill system was adopted. The gist of this system is: the Bank of Japan purchases foreign exchange from the Foreign Exchange Control Committee and loans it to foreign exchange banks at an interest rate of 4 per cent for the settlement of import bills. Thus, Japanese trade policy shifted from one favouring exports to one favouring imports.

Trade structure in 1950

As already stated, recent foreign trade developments may be summarized by favourable exports and stagnant imports. The total export value during the January-September period was 533 million dollars, topping the previous year's figure. By commodities, textile manufactures ranked first (50.6%), followed by metals (19.7%), machinery (7.8%), foods and drinks (6.7%) in the same order as the previous year. However, foods and drinks, lumber, oil and fat products, chemicals and metals increased as compared with the previous year both in value and in the ratio they held in the total export value. In particular, the remarkable advance in the ratio occupied by metals, due to the expansion of arma-

ments in the U.S., added another feature to the Japanese trade structure. Principal import commodities were foodstuffs, textile materials, chemicals, and animal and plant products. Compared with the previous year, textile materials, animal and plant products and machinery increased in value and ratio. The increase in the ratio was most pronounced in textile materials (from 24.1% to 35.8%). On the contrary, note-worthy is the sharp decline in non-metallic minerals.

By export destinations, the dollar area accounted for 37 per cent of the total value, the sterling area 31 per cent and other areas 32 per cent. The increase in the dollar area and the sharp decline in the sterling area were striking. The advance in the dollar area was attributable to the increase to the U.S., China, Formosa, Canada, etc., the most responsible factor being the increase (by approximately 50%) to the U.S., because of its big absolute value. In other areas, Argentine, Germany and Thailand increased as against a decrease to Hongkong and Indonesia. In the sterling area, Malay, South Africa, Burma and Pakistan increased, while the U.K., Australia and India decreased. The decrease to the U.K. and India was mainly responsible for the decline in the sterling area.

As regards imports, the dollar area, the sterling area and the other areas accounted for 57.8 per cent, 20.4 per cent and 21.8 per cent respectively. Compared with the previous year, the decrease in the dollar area and the increase in the sterling and other areas, particularly the latter, are conspicuous. By countries, a sharp decline in the U.S. and the increase in China, Formosa, Australia and Pakistan characterized the imports in 1950.

In short, Japanese foreign trade was lopsided up to 1949, in that exports went mainly to the sterling area, centering on textile manufactures, while the greater part of the imports come from the U.S., particularly foodstuffs and raw cotton. In 1950, the lack of balance in trade with the U.S. was considerably amended, due to the sharp decline in export to the sterling area and the market advance of those to the U.S., and on a abrupt decrease in imports from the U.S. and big increase from sterling and other areas.

Due to the advance in exports as a result of the change in the world situation, the balance of payments improved remarkably. For the period of January-September, exports totalled 533 million dollars and imports 673 million dollars, the import being 140 million dollars as against 395 million dollars in the previous year. If the provisional figures are included, exports totalled 698 million dollars and imports 835 million dollars for the January-November period, thus the import excess will be reduced to 137 million dollars. If the U.S.-aid imports are included, an export excess of 159 million dollars will be registered for the period of January-September, as against 140 million dollars in 1949. This export excess has been increasing year after year. Including the dollar revenue accruing from the special military demands, the foreign currency held reached about 300 million dollars. In view of this favourable situation, the Gray report recom-

mended the suspension of U.S. aid to Japan on the ground that there are prospects of Japanese economy becoming self-sufficient by the middle of 1951.

The imports financed by the U.S. aid funds, which have been increased annually from 193 million dollars in 1946 to 535 million dollars in 1949, were decreased to 303 million dollars for the period of January-September, 1950, the yearly total value being estimated at 382 million dollars. The percentage occupied by the U.S. aid imports in total imports hit a high of 77 per cent in 1950. It is anticipated that the U.S. aid imports will cease by 1953.

With the change in the world economic situation, however, the outlook for imports became dim. To enhance imports is most necessary for the time being, in order to achieve economic self-support.

The Communist China intervention in the Korean conflict made it inevitable for Japan to suspend exports to Communist China. Exports of all commodities (excluding textile manufactures) to the Chinese Communist territory and Hong-kong were banned on December 6. During the period January-October, 1950, exports to Red China amounted to 14,160,000 dollars and imports from there 21,500,000 dollars. By commodities, the greater part of the exports were iron and steel; the principal import commodities were iron ore and coking coal. Since the outbreak of the Korean hostilities Japanese economy depended rather more on imports from Red China than on exports to that territory. Consequently, in case a retaliative embargo on Japan is enforced by Red China and no imports of coking coal and iron ore from other areas

materialized, the production of iron and steel and other products will consequently decline. Importation of coal and iron ore from the U.S., instead of Red China, which the Japanese government has taken up with G.H.O., appears to be difficult because of the armament expansion in the U.S. The success or otherwise of this plan will have a conclusive effect on the self-support of Japanese economy.

(III) PUBLIC FINANCE

With the turn of the government policy from inflation to stabilization, the result of public finance for 1949 has been watched with keen interest. Within six months after the enforcement of the Dodge line, treasury conditions turned to over-receipts, the currency in circulation began to contract, and prices tended to decline or remained unchanged. Although

an over-payment was witnessed during the third quarter of the year due to government purchase of foodstuffs, in the fourth quarter (January-March 1950) treasury conditions turned to over-receipts of 80.7 billion yen, as the result of the efforts in tax collection, the annual over-receipts totalling 32.3 billion yen. Thus a balanced public finance was finally realized, and in addition the amount of national debt decreased by 63.8 billion yen during the year.

The original budget for 1950, together with the supplementary budget for 1949, was drawn up with the object of further accelerating national stabilization and rehabilitation, during the 15 months beginning from January 1950, taking as the primary object in view, the maintenance of equilibrium between revenue and expenditure, the redemption of the national debt and the accumulation of government funds. Thus, the receipts and disbursements in the general account were balanced; an over-receipt of 42.4 billion yen was realized in the special accounts; and the increase of reserve funds and the redemption of national debt were expected to reach 69.6 billion yen and 128.6 billion yen respectively.

What should be noted, in the second place, was the shrinkage in the scale of government finance for the first time in ten years. Compared with the previous year, a decrease of 79.6 billion yen in the expenditure of general accounts, or 239.8 billion yen in net total of expenditure was registered. The main items of decrease of expenditure in the general account were 89.2 billion yen of the price adjustment, 105.8 billion yen of investment or transfer to government corporations or to special accounts, and 19.1 billion yen of the war-termination expenses. These shrinkages in expenditure strengthened the efforts toward economic stabilization and enabled further progress in that direction to be accomplished. The curtailment of expenditure also permitted a reduction in taxes. The estimate of tax and stamp revenue decreased by 71.3 billion yen compared with the previous year.

These were the special features in the original budget toward stabilization. As a rehabilitation policy, an increase in disbursements in the nature of an investment could be seen in the expenses for public works (an increase of 36.5 billion yen, from 62.5 billion to 99.0 billion) and in the appropriation for investments from the U.S. Aid Counterpart Fund (an increase of 28.0 billion yen, from 53.0 billion to 80.0 billion). Expenditures relating to social policies as unemployment counter-measures to alleviate the hardship consequent on enterprise rationalization with policy, was also increased markedly (by 124 billion yen, from 25.7 billion to 38.1 billion). Furthermore, from the view point of completing local finances, the establishment of the equalization grant system, unifying the former local distribution tax and various subsidies and the measures taken for assuring the local tax revenue through the transfer of tax resources and the adjustment of tax items, in accordance with the recommendations of Dr. Shoup, must be regarded as special features.

With the progress of the stabilization policy, an increase of stock piles and a money tightness (especially in long term funds) developed, and some alleviation of the Dodge line has been requested in various quarters since the end of 1949. Nevertheless, the stabilization policy was strictly maintained in the original budget. After the outbreak of the Korean war, the situation changed with activity developing in certain branches of industry due to special demands, and unexpected expansion of exports, and a rise in prices in foreign countries. In view of these conditions, a request for the positive utilization of treasury funds, particularly Counterpart Funds and the Deposit Bureau funds, and the establishment of an export bank for the supply of long-term funds to export industries, has been made by business circles. In order to meet this demand, the government drafted an amendment to the budget with the primary object of (1) accelerating capital accumulation through a tax reduction, (2) an increase of such investment expendi-

ture as public works and an investment in the export bank, and (3) the elevation of the pay levels of government personnel. The government intention to alleviate, to some extent, the original principle of maintaining an equilibrium between revenue and expenditure was revealed in the compilation of the supplementary budget. For example, the inventory finance to the special accounts was intended to be made from borrowings and not from the general account. On the occasion of the third visit to Japan of Mr. Dodge in October, the supplementary budget plan was submitted for his inspection. Mr. Dodge's judgment of the situation differed from that of local authorities, he opining that the recent activity in Japanese economy due to special demands would be of a temporary nature. For the attainment of economic self-support of the country, efforts should be made to increase the regular exports through business rationalization, and the overseas inflationary trend should never be followed by Japan.

Budget for General Account (1950-51)
(in million yen)

	Original	1950 Supple- mentary	Total	1949
Revenue				
Taxes and stamp revenue	444,600	465	445,065	515,970
Income tax	248,683	-13,259	235,424	299,811
Corporation tax	38,602	18,676	57,278	50,060
Liquor tax	103,003	1,680	104,683	75,235
Revenue from govt. enterprises and properties	132,147	-7,687	113,050	130,950
Monopoly profits	121,024	-7,974	113,050	119,463
Miscellaneous	57,789	562	58,352	62,718
Special revenue	6,217	9,817	16,035	7,938
Surplus from the previous year	20,651		20,651	23,736
Total	661,406	3,170	664,576	741,313
Expenditure				
Imperial household	112		112	97
Diet	1,330	188	1,519	1,564
Court of Justice	4,834	116	4,950	4,356
Administration	37,584	3,649	41,225	37,611
Justice and police	19,539	600	20,140	17,445
Education and culture	15,255	1,016	16,271	36,081
Social services and labour	34,826	2,170	36,997	26,640
Sanitation and health	7,459	495	7,955	6,493
Industries and economy	33,854	10,890	44,744	98,153
Public works	99,033	4,251	103,285	62,555
Price adjustment	90,000	-26,000	64,000	179,200
Adjustment affairs of commodities and prices	1,984	-100	1,883	7,019
Local finance	105,036	3,500	108,538	70,473
Pensions and annuities	5,626	38	5,665	3,341
Government investments	8,779	3,500	12,279	46,646
Debt service*	84,700	1,363	82,336	13,204
War termination	109,061	200	109,262	125,289
Special properties disposition	990	-102	887	1,753
Repatriation equipments disposition ..	768	-110	658	2,664
Released goods disposition	175	238	413	452
Reserve	450		450	
Total	661,406	3,170	664,576	741,313

Note: * 20 billion yen and 4.5 billion yen of Debt service are diverted to Police Reserve and Maritime Safety Agency respectively.

Thus, the supplementary budget was finally decided after a perusal by Mr. Dodge, the stabilization line of treasury conditions being fully maintained. Even for the inventory finance to the foreign

exchange special account, the transfer method (10.0 billion) from the general account was adopted. Curtailment of expenditures amounted to 33.1 billion yen (including 26.0 billion yen) of price ad-

justment expense. Expenses for public works and government personnel pay-roll improvement expenditure were increased conservatively by 4.7 billion and 3.2 billion respectively. Finally the amount of additional expenditures was decided at 3.1 billion yen.

Furthermore the wishes of the government and business circles were realized also. An investment of 2.5 billion yen each to the export bank was granted from the general accounts and the U.S. Aid Counterpart Fund, the quarterly amount of loans to small and medium scale enterprises was increased from 0.3 billion yen to 0.9 billion yen, and loans to private enterprises (other than electric power and shipping) from 4.3 billion to 60 billion yen. Furthermore, Mr. Dodge revealed his new idea of reorganizing the Deposit Bureau into the Fund Operation Bureau, so as to accept not only national and local bonds but also bank debentures, with accumulated funds of postal savings and insurance money. The hoped for tax reduction was realized at 6.3 billion yen, or 0.6 billion lower than the original plan.

As already mentioned, public finance in 1950, in both the original and supplementary budgets, was formulated primarily to advance stabilization similar to the year 1949, the progress attained in the latter year enabling an alleviation of the burden of the people by various expenditure curtailments, with some progress on the side of investments and other social policies in 1950. The fiscal 1951-52 budget which was made public at the end of last year, although maintaining the principle of a balanced budget, is characterized by an increase of investment expenses and of public works projects, and decrease in debt redemption expenses to 21.0 billion yen, indicating the transfer of importance from stabilization to rehabilitation by the government.

IV MONEY AND CREDIT

In the second year of the so-called disinflation policy, 1950 was a chequered year for the country's money market, affected by the Korean war which broke out in June.

In the first half of the year, with the increasing deflationary tendencies, various contradictions of disinflation, such as the limit of market operations, reduction in savings, the blocking of loans and over-loan problems, etc. came to a head. In the second half of the year, the outbreak of the Korean war brought about the special demands from the allied armies and the world-wide demands for rearmament goods. As a consequence, the basic economic conditions in Japan took a sudden turn from a deflationary to inflationary tendency, forcing change in the country's monetary policy from the deflation mitigating policy of the first half of the year to an inflation controlling policy. This, however, did not mean a change in the basic policy of disinflation, but the problems rather moved to the point how to drive forward the final stabilization of the country's economy utilizing such a favourable turn in world business. Hence, the adjustment problem between money and finance, which had been carried forward from the first half of the year, had to be quickly solved.

Viewing the execution of the balanced budget regulating the monetary movement, in accordance with the movement of government funds to private circles, the annual total of over-receipts in 1950 amounted to 15.9 billion yen in contrast to 53.3 billion yen for 1949. A marked mitigation of pressure brought upon the money market in 1950 could be seen. This mitigation, however, did not last throughout the year. The over-receipts in the first half of the year amounted to 130.0 billion yen whilst in the second half over payments of 115.0 billion yen were registered showing a contrary phenomenon. The seasonal payments for rice-quota delivery as in the third quarter of the year and particularly the large scale payments from the foreign exchange special account due to the abnormal export boom brought about by the Korean war in the second half of the year, were attributable to the over-payments. In this sudden change from a deflationary tone in the first half of the year to an inflationary tone in the second half of the year, the basis of the monetary policy for 1950 can be seen.

The measures taken under the disinflationary policy upon such a basis were as follows.

(a) Loans of the Bank of Japan:—The annual increase in total loans by the Bank of Japan was only 26.0 billion yen throughout the year, in contrast to 37.0 billion yen for the previous year, showing a heavy decline. However, this annual increase in additional credit of the Bank of Japan, as will be seen from the increase of 41.5 billion in the first half as against the decrease of 15.6 billion in the second half of the year, can be mainly attributed to the abnormal increase (2.3 fold of the previous year) in the first half of the year, and the large scale withdrawal of bank-loans corresponding to the colossal over-payment of government funds in the second quarter of the year which could stop the annual increase to that extent.

In detail, the increase in the first half of the year was due mainly to the advance in the period February through April, in May and June a somewhat contracting tendency could be seen, on the contrary. The contraction was due to the adoption by the Bank of Japan of a restrained attitude in May stimulated by the currency expansion in April. The restraining policy, however, did not prove effective for long because of the later change in basic economic conditions after July, such as the prevailing activity of special demands and the favourable turn of the export trade, backed by the world-wide anticipation of armament expansion, and again a large scale credit expansion set in. With the development of the Korean war, however, a cautious sentiment began to prevail, and the credit expansion was again brought back to a stronger restraining policy centralized around speculation counter-measures. Thus, the amount of loans by the Bank of Japan, after September, registered a drastic shrinkage, with a background of big over-payments of government funds.

As mentioned above, the loan policy of the Bank of Japan during 1950 seemed to have been shaky according to the

movement of government funds with an unexpected change in the economic situation, though it can be said to have been very susceptible in adhering closely to the disinflation policy based on the Dodge line.

(b) Market operations of the Bank of Japan:—The purchase of national bonds by the Bank of Japan during 1950, conducted with a view to easing the monetary situation as a link in the disinflation policy, and assuring the supply of long-term funds after the suspension of activities of the Reconstruction Finance Bank, amounted to more than 40 billion yen, a fair increase compared with the previous year (Y32 billion). The semi-annual amount being roughly 20 billion yen each, no special features could be superficially seen from these figures but, in substance, market operations trod a very complicated path.

In the meantime, the decrease of national bond holdings by city banks through the market operations of the Bank of Japan at the beginning of the year, remained unsolved as a problem of assets construction of financial organs.

(c) Deposits of government funds in city banks:—The increase of bank loans and operations brought about the problem of over-loans and operation limits. An abnormal increase of deposits of government funds in city banks (42.4 billion yen at the end of March 1950) gave rise to a call for an adjustment between public finance and the money market. After careful consideration, the government designated-deposit and trust money system was adopted as a temporary measure of government funds, and finally at the end of the year, Mr. Dodge's idea of a Fund Utilization Bureau was realized for employing the Deposit Bureau's surplus funds in the form of subscription to bank debentures.

(d) Note issue:—Looking into the results of the disinflationary policy in the currency circulation, the usual trend of a shrinkage in the first half and an expansion in the second half of the year were seen in both 1949 and 1950, whilst in annual total, an expansion of 66.7 billion yen was registered in 1950 as against the typical equilibrium maintained in 1949.

As already mentioned, the expansion of the note issue was due to an unexpected change in the country's economic situation, stimulated by the Korean war, particularly by the favourable turn of export trade and industries. Considered from the money market conditions at the end of 1950, this currency expansion does not necessarily call for special precaution as being an adverse factor in the disinflation policy. Underlying this currency expansion, there seems to be a strong current to push forward the disinflationary policy by broadening the former measures and radically solving the pending question of public finance and money market, by utilizing the favourable turn in world economy.

(e) Over-loan:—Side by side with the problem of public finance and the money market, the question of over-loans loomed high in 1950. This was brought about by the top-heaviness of deposits on the one hand and by the expansion of loans to meet the increased demand for funds

on the other. The former was accelerated by the enforced tax collection in the first half of the year and the increase of cash transactions in anticipation of inflation in the second half of the year, whilst the latter was stimulated by the accumulation of funds for stocks on hand in the first half of the year and the increase of demand for trade and industries funds in the second half.

The question of what funds were used to cover these over-loans might be raised. They were mainly covered by loans from the Bank of Japan, though it cannot be overlooked that a comparatively large amount of government deposits was utilized for this purpose.

(f) Industrial funds:—The over-all movement of industrial funds according to the all-Japan banking statistics shows that total loans increased during the period January through December 1950 to 189 billion yen, which is roughly the same amount as in the corresponding period of the previous year. As to loans to industry, those to mining, manufacturing, agriculture-forestry and aquatic products were moderate in their rate of increase, whilst loans to building and construction, public utilities, bank and commercial industries were quicker in the rate of increase. A heavy decline in loans to coal mining, agriculture-forestry and aquatic products industries, and a sharp increase in those to public utilities, banking and commercial industries were recorded.

Investments from the Counterpart Fund to private enterprises realized before the end of December 1950, went to shipping, small and medium enterprises, coal mining and the iron and steel industries. Investments in electric power, chemical and agriculture-forestry and the aquatic products industries were less than one third of the planned amount. Those to textiles and the gold mining industry and to subways have not materialized as yet.

As regards special procurement orders for commodities, contracts concluded up to the third week of December 1950 totalled 41.4 billion yen. By commodities, machinery amounted to 11.8 billion yen, ranking first, followed by metal products of 10.8 billion, textiles of 6.5 billion and timber and paper of 5.4 billion yen.

A review of banking during 1950 shows that urgent problems are to be solved in 1951, which cover the operation of the Counterpart Fund, measures for trade financing, overcoming over-loans and a reduction in the volume of currency in circulation, etc. centering upon a radical adjustment between the treasury and banking circles. For a country whose economy is just on the point of entering into the stage of self-support, these problems are of vital importance when banking is shifting from the currency stabilization period to the all-round economic stabilization period.

(V) SECURITY MARKET

With the enforcement of the Dodge line, the function of the stock market increased in importance and the regular stock exchange reopened in May 1949. Large purchases of stock brought about oversupply of stocks on the market.

Stock market quotations declined with the deflationary tendency in the economic world, and the stock market continued inactive. Under these circumstances, radical stock market counter-measures became a question in 1950.

On January 9, 1950, the All-Japan Security Dealers' Conference presented to the government a demand for an early realization of some countermeasures. The Democratic Liberal Party formally decided, on January 28, on security market countermeasures (early realization of the granting of credit; establishment of security holding organs; utilization of investment-trust system, etc.). Diet passed a resolution for the establishment of stock market countermeasures to facilitate the raising of longterm industrial funds, on March 28, at the regular session of the House of Representatives. Many other demands, including a plan for the establishment of a principal underwriting company, were presented from civilian quarters, but none of them were realized in 1950, although some improvements were attained.

Security finance companies were established in every locality where a stock exchange exists. The Japan Security Finance Company, which was established in Tokyo, as early as the end of 1949, with a capital of 250 million yen, extended the scope of its financing from security dealers to general investors, and becoming call-loan member company, opened a current account with the Bank of Japan (April 10). On May 8, the company commenced the call-loan business, and transactions among brokers in distant places and the stock-loan system of the company were permitted (May 22). Stock-loaning was started on June 1, and despite various restrictions, the system played not a small role on the security market.

As a result of off-market dealing suspension and forced liquidation of the Asahi Glass Co's stock, on April 13, the Security Transaction Committee warned security dealers with a view to reducing their security holdings to less than their net assets and to lowering their liability limit below 15 fold of their capital (20 fold according to the existing law), which afforded prospects for security dealers to rationalize and grant credit. However, with the market inactivity prevailing since 1949, the business condition of traders has deteriorated, with continued cancellation of business registration and liquidation occurring in succession of the partial revision of the Security Transaction Committee, the number of security dealers decreased from 1,152 as at the end of December 1949 to 1,003 at the end of October 1950. Therefore, as a result of the partial revision of the Security Transaction Law, promulgated and enforced on March 29, the business year of security companies was revised from the former semi-annual basis to annual and the settlement date postponed to September, for the convenience of traders.

In contrast to the inactivity in the security market, off-market transactions were very active. In order to prevent excess speculation in potential shares, the Tokyo Stock Exchange applied in August to the Security Transaction Committee

for the early execution of issue date transactions, which came into effect as late as on November 13. In view of the minor results obtained by this measure, the Committee issued a strict warning against the collective dealing of unlisted stocks and enforced an improved measure moderating the restriction for issue date transactions.

In short, the radical stock market countermeasures failed to be realized in 1950, except for incidental results arising from the rationalization of security business and adjustment of security dealers. Their formal solution and the enforcement of a regular system were carried over to the year 1951.

Stock market conditions in 1950 can be divided into two terms, taking the outbreak of the Korean war on June 25 as the border line. In the first half of the year, the market tone was generally dull with small fluctuations. In the second half, however, activity set in around the middle of July, stimulated by the special procurement demands and active exports, transactions reaching 94,400 million shares on July 17. After experiencing the highest daily average quotations of ¥84.04 on August 21, a cautious attitude developed. Even in this weakening period, shipping, textile and metal industry shares got bullish support, quotations marking time.

According to the stock price index compiled by the Tokyo Stock Exchange (August 1946=100), the general index for November 1950 (346.4) was 32.8 per cent higher than that for June, or before the Korean war. A marked advance was registered in textile shares (an increase of 75.4% high), fishery (62.4% high) and mining (47.5% high). Those which continued to decline were foodstuff, communications and amusement stocks. The general index of November, however, was 18.6 per cent lower than the corresponding period of the previous year.

As a result of the efforts of the Capital Increase Adjustment Conference, the issue of new shares was adjusted and public subscription shares were shelved, for the purpose of moderating two oversupply of shares on the market and to avoid increasing pressure upon the market. In spite of these measures, however, the difficulties of capital increase could not be overcome, and hence a further conservative policy was adopted under which share subscriptions for the period January through September 1950 were only 46.8 per cent of the same period of the previous year.

As regards the release of stocks held by the SCLC, the suspension of sale, excepting disposal to respective company's employees, was continued since October 1949, and the monthly average sales in 1950 amounted to less than 100 million yen in contrast to 700 million yen in 1949. Stock releases actually disposed of by the SCLC since its commencement in June 1947 up to November 1950 totalled 13,279 million yen.

Contrary to the inactivity which prevailed in the stock market, the issue market was most active, although there were some ups and downs. The annual total of issues amounted to 44 billion yen in bank debentures and 75.7 billion yen

in industrial debentures, showing a drastic increase of 27 billion and 29.2 billion respectively over the previous year. Special features in the issue conditions were the revival and increase of subscriptions with the Counterpart Fund, as well as an increase of new debentures by more than 30 percent of the total number of cases, reflecting difficulties in the capital increase through public subscription. Besides, the increase of bank debenture issues began to exert pressure upon the issue of industrial debentures, which called for effective countermeasures.

Factors supporting the activity of the issue market were the revision of the issue terms and the market operations of the Bank of Japan, as in the case of the previous year. Industrial debentures, however suffered pressure from the effects of the tightening money situation. For instance, with the decrease in market operations in May-June, the issue of industrial debentures was cut down. The later announcement by the Bank of Japan of the self-digestion policy of company debentures made the issue of industrial bonds more difficult, despite the continued operation policy. By the lowering of the issue margin, the issue terms became favourable, which cannot be overlooked.

Subscriptions to bank debentures with the Deposit Bureau's funds decided in December, was anticipated by the issue market, so much so that the importance of bank debentures in the scope of raising long-term funds will be greater. Under this new measure, however, to what extent general enterprises can secure their necessary funds is a question, and it cannot be denied that enterprises will stand in a difficult position for raising funds by their own efforts. If the present condition, where the digestion of industrial debentures is concentrated in banking institutions, is taken into consideration, an early execution of proper countermeasures, such as the institution

of a circulation market, giving impetus to public subscription, will be urgently needed.

(VI) PRICES

The object of the price policy in 1950 was to influence the price structure towards normalization continuously from the previous year. Especially in 1950, interest seemed to be centered how contradictions and difficulties could be adjusted in these transitional times, as all policies were carried out on the basis of the principle of curtailing subsidies and the abolishment of price control on a larger scale than in the previous year.

Price subsidies totalled 179.2 billion yen and still accounted for 24.2 percent of the total expenditure in the budget for the 1949 fiscal year. In the budget for the 1950 fiscal year, subsidies were appropriated of 90 billion yen or 13.6 percent of the total expenditure, or a reduction by half compared with the previous year, owing to a curtailment both in the unit price and in number of items (subsidies were appropriated only on imported foods, iron and steel, fertilizers and soda). A further curtailment was realized afterwards, and finally in the supplementary budget, the subsidies totalled 64.0 billion yen (26 billion yen decrease) or 9.6 percent of total expenditure.

As a result of the curtailment or abolition of subsidies, a revision of official price of those commodities was successively carried out, which had a great effect on our economy as those commodities were basic materials. Besides commodities under subsidy, a raise in official prices of basic materials was also put into effect for gas, pyrites, land and house-rents, cotton yarn, staple foods etc.

Price control was abolished on a large scale, on such materials as on cement, rayon filament yarn, hemp tissues, timber, aluminium, crude rubber, charcoal, fresh fish, drugs, bicycles, canned foods,

hides and leather, galvanized sheets, oils and fats etc. Commodities under price control numbered 1,299 at the end of 1949, 478 at the end of June 1950 and 364 at the beginning of December.

Following the weakened support of the price level due to price policies through these enforcements of abolition of subsidies and decontrol, which is a prerequisite to the normalization of economy, a declining tendency of free market price became more and more apparent reflecting a deflationary tendency. It was feared that retrenchment or a fall in production would be brought about and that the present low level of the living standard would remain at a standstill affected by this tendency. Reflecting the price rise in basic materials and the deflationary trend, a tendency to a high cost of raw materials and low prices of manufactured goods became apparent.

The aspect changed due to the outbreak of the Korean war, which affected Japanese economy more favourably than was to be expected. Prices rose due to the international price advance, increased demands and speculative buying. It became necessary, therefore, to check or stabilize the price movement, and thus measures to prohibit excess profiteering, a recommendation price on woollen yarn, a standard price for spun rayon yarn and rayon filament yarn were successively put into effect. Measures to meet changes in international economy, such as; expansion of armaments, a tendency of "from money to goods," and "from buyers' market to sellers' market," a revival of economic control in the United States, prohibition of exports to communist China, etc. are earnestly required.

The future price policy is expected to be such as to narrow the discrepancy between international and the domestic price level and to aim at promoting imports and checking the efflux of domestic commodities, in place of a low price

policy. At the same time it is necessary to study the adjustment of demand and supply of the principal commodities, the promotion of imports, the restriction on exports, and to enforce the allocation of raw materials, etc. in connection with the price policy.

Price continued to be stagnant. Free and black market price rapidly fell especially in the early period of the year affected by the deflationary tendency, index showing a 27.0 per cent fall in producers' goods and 36.7 per cent in consumers' goods up to June compared with the average of the previous year. By commodities, all categories showed a decline except metals and products thereof which were affected by the international price rise and a raise in official prices (4.1% increase, in which pig iron advanced by 19.6%, rolled steel by 33.9%, electric wire by 63.8%). The price decline was most pronounced in fertilizers (32.1%) and textile goods (62.4%).

On the contrary, official prices advanced continually due to the abolition of subsidies as mentioned above. The wholesale price index, which is greatly affected by the trend of official prices, advanced by 9.7 per cent in June compared with the previous year's average, chiefly attributed to the advance in producers' goods (16.1%), consumers' price showing only 3.5 per cent advance.

Discrepancy between official and free market price narrowed due to a raise in official price and a decline in free market price. The average rate of free and black market price to official price narrowed from 170 per cent at the end of 1949 to 120 per cent in June 1950 for producers' goods, and from 180 per cent to 130 per cent for consumers' goods. Effective prices, which are the synthesis of official and free or black market prices, showed little change, advancing by 9.8 per cent in producers' goods and declining by 11.8 per cent in consumers' goods during the same period.

The aspect of stagnation of price movement changed after May, when the consumers' price index showed an upward turn, and afterwards free and black market price also registered a slight advance in June after one year's decline. The international price advance led by prosperity in the United States was mainly attributable to this advance, which was accelerated by the outbreak of the Korean war. The wholesale price index advanced by 17.3 per cent from June to October, in which producers' goods advanced by 25.2 per cent and consumers' goods by 8.8 per cent. Price rise in free and black market price was 32.7 per cent in producers' goods and 20.4 per cent in consumers' goods from June to November. This tendency was brought about by the increasing special military demands by the Korean war, an activity in exports and strong price situation affected by the international expansion of armaments, as well as by the speculative buyings. This price advance is different from that in the postwar inflation, and the price movement is divergent according to commodities, prices of commodities affected by the international price or those for exports showing a remarkable advance, whilst those for domestic market

showed a trend of stand-still or decline due to the lack of effective demands.

The advancing trend of prices has gradually slackened after September especially in consumers' goods, especially due to the monetary tightness. Two contradictory factors function the price movement, that is, the international price advance and the lack of domestic purchasing power under the disinflation policy. Nevertheless, future price movement seems to continue strong, and a tendency of "high cost of raw materials and low price of manufactured goods" is anticipated to be more apparent.

Same in 1949, nominal wages showed a continuous increasing trend, whilst real wages did not show an increase in 1950. Especially after the outbreak of the Korean war, real wages tended to decrease due to a rise in prices, in spite of a slight increase in nominal wages owing to the special demands.

Household economy also showed no favourable turn. The red figure of household budget (real expenditure less earned income) of salaried men decreased slightly until July compared with the previous year. Even some surplus was registered in May and July, but thereafter deficits have again been increasing. Living standard also showed no favourable turn, but tends to lower after the Korean war.

It is a serious problem whether the living standard of wage-earning class can be maintained and raised or not by the new aspect of our economy. Moreover, the adequate measures are essential, in view of the difficult household economy of unemployed or one under living protection law, whose real condition cannot be clasped in the statistics mentioned above.

(VII) AGRICULTURE AND FOOD SITUATION

The rehabilitation of production and increased imports of foodstuffs, on the one hand, brought about a favourable food situation, but on the other hand, occasioned a decrease in agricultural funds adversely affected farmers' economy, through a decline in prices of agricultural products. That was the situation during the first half of this year, but the favourable turn in the second half due to the increased income through the delivery of rice favoured by a good crop and the mitigation of tax burden was enough to cover the deficit which occurred in the first half, the surplus in farmers' economy (gross income of farmers less operating expenses) increasing 4 fold compared with the previous year.

As the main object of rural economy since the farmland reform is to foster and maintain the newly-established landed farmers, it is worthy of notice how farmers utilize the present temporary ease and evolve agricultural economy.

Production: The planted rice area has again increased since 1947; in 1950 both production and planted area were almost on the same level as that of 1934.

Wheat acreage has also been increased since 1947, and in 1950, production and acreage reached the level of 1944, whilst barley and rye exceeded by far the respective highest records (barley in 1944, rye in 1942).

The production and acreage of sweet potatoes and Irish potatoes were far in excess of the pre-war level, though a slight decline was witnessed both in production and acreage after 1948-1949.

Imports: Imports of foodstuffs have increased since the termination of hostilities reaching 2.52 million tons in the 1949 rice crop year. However in the 1950 rice crop year, imports decreased by 70,000 tons compared with the previous year due to the decrease in imports of all kinds of foodstuffs except rice. Despite this decrease, the released amount increased to 2.13 million tons compared with 1.69 million tons in the previous year.

Demand and supply: The supplied amount in the 1950 rice crop year totalled 11.74 million tons, including 2.59 million tons of stocks carried over to this year, and 9.15 million tons purchased, whilst the demanded amount was 8.89 million tons, leaving a balance of 2.85 million tons to be carried over to the next year.

Demand and Supply of Staple Foods in the 1950 Rice Crop Year

(1,000 tons in terms of brown rice)

	Supply	Demand	Carried over to next year
Domestic production:			
Rice	5,607	4,242	1,365
Wheat & barley	1,955	1,263	692
Potatoes	730	730	—
Other cereals	294	269	25
Total	8,586	6,504	2,082
Import			
Rice	763	661	102
Other cereals	2,395	1,729	666
Total	3,158	2,390	768
Grand total ..	11,744	8,894	2,850

Note: Based on statistics of the Ministry Agriculture and Forestry.

In connection with the demand and supply situation, (1) stocks held by the government amounted to more than 2.5 million tons (equal to 4 months' rationing) in June and July, the highest in post-war period, (2) rationing declined 0.5 million tons in one year, (3) the control of potatoes was abolished, and (4) free sales were authorized of some kinds of wheat products.

According to the effective price index for all cities, the index of food expenses declined greater than that of the general index because of the fall in prices of staple foods in the black market and increased rationing at official prices.

Free and Black Market Price Index in Tokyo

(Sept. 1945=100)

	Non-foodstuffs	Food stuffs	Staple food	Rice
1948 ..	938	625	624	457
1949 ..	997	664	595	458
1950 ..	192	470	378	288
(Jan.-Oct.)				

Note: Compiled by the Bank of Japan.

As regards the black market prices of rice in rural and urban districts, though the price in both areas rapidly advanced in the off-crop season affected by the Korean war, it still remained far below the level of the corresponding period of the previous year. Furthermore, the amplitude of the black market price in rural districts was narrow in comparison with that in urban districts, as the former did not admit of a further decline on the one hand, and was checked in the upper limit by the decreased demand in urban districts on the other. Lastly, the difference prevailing between the price in both districts has gradually narrowed, showing a general stabilization of the demand and supply situation of foodstuffs.

Black Market Price of Rice (in yen per sho)

	Rural districts *	Urban district †
1948 July	165	270
Dec.	131	228
1949 July	153	230
Dec.	119	180
1950 Jan.	114	170
Feb.	102	150
Mar.	96	130
Apr.	94	120
May	98	120
June	91	120
July	103	148
Aug.	108	153
Sept.	108	145
Oct.	102	138
Nov.	91	138

Note * Compiled by the Ministry of Agriculture and Forestry. † by the Tokyo Chamber of Commerce.
1 sho=1.8 litre or 1.47 kg.

Because of mitigation of the tax burden based on the Shoup recommendation in the 1950 fiscal year, the tendency of excess withdrawals of government funds from farm-villages was alleviated to some extent compared with the previous year. Income tax in the 1950 fiscal year will be lowered by about 20 billion yen compared with the previous year, and thus the tax burden upon farmers is expected to decrease about 50.7 billion yen (59.9 billion yen in 1949) despite an increase in local taxes. The disbursement of government subsidies for agricultural public works slightly increased following an increase in general.

Presumed Tax Amount Imposed on Farmers

(in 100 million yen)

1948 F.Y. 1949 F.Y. 1950 F.Y.:

Income tax	400	420	222
Business tax	32	67	—
Inhabitants tax	31	58	113
Land tax	16	40) *	172
House tax	5	14)	
Total	484	599	507

Note: Compiled by the Ministry of Agriculture and Forestry.

* indicates real estate tax including both land and house tax.

Farmers' economy gradually deteriorated after 1946 when the so-called "farm villages' inflation" was most vigorous, from the view point of surplus in farmers' economy (farmers' gross income less gross operating expenses) adjusted by the price index, which went into red figures in 1949. However, in 1950, the surplus is expected to reach 6,800 yen per household according to a survey by the Ministry of Agriculture and Forestry.

If we compare the economic situation of the farming fraternity during the April—October period in 1950 with that in the corresponding period of last year, according to a survey of farmers' economy compiled by the Ministry of Agriculture and Forestry, a farmers' income increased in each period, especially in September—October, (except the April—June period) compared with the previous year. Farmers' expenditure decreased except for a slight increase in the September—October period. Thus, the red figures in the April—August period decreased by half compared with the previous year, and the surplus in the September—October period increased 4 fold.

It is earnestly necessary in Japanese national economy to strengthen the farmers' economy, taking advantage of the present favourable turn. Furthermore, no optimistic view can be taken of the food situation having regard to the international situation. The government intended to relax controls of foodstuffs even after the outbreak of the Korean war, but at present it is inevitable to re-strengthen food control, and at the same time to foster campaign for increasing food production and promoting agriculture, with a view to securing the self-supply of foodstuffs. How to realize a production increase and accomplish it efficiently, is an important problem to be solved in 1951.

(VIII) INDUSTRIAL PRODUCTION

Production, which continued stagnant after April 1949, gradually became active from the beginning of 1950, and rapidly increased after the outbreak of the Korean war. According to the production index compiled by GHQ (1932—36=100), industrial production continued stagnant in January and February, but turned active after March, despite the production crisis which occasioned much worry, due mainly to activity in the textile industry centering in the cotton spinning branch favoured by an active export in the non-ferrous metal industry because of the international expansion of armaments, the iron and steel and the fertilizer industry, other branches suffering from the increasing stockpiles.

After the outbreak of hostilities in Korea, however, stocks have rapidly decreased affected by the special military demands and active exports, giving an impetus to a production increase. Production of machinery which continued inactive until then, soon advanced in July influencing the steel manufacturing industry as well as the textile industry favourably. In September, the output of chemicals, ceramics, timber and coal also increased. A further advance was witnessed in all categories in October, the

production index exceeding the pre-war level for the first time since the termination of the War. The average production index during the January—October period was 91.4 percent of the pre-war level, increasing by 18.4 percent compared with 1949.

On the other hand, the production increase has almost reached the limit because of the poor equipment capacity, the lack of power to accumulate capital and dependency for raw materials on overseas supplies.

As to production by categories, it is evident that the mining industry continued inactive in comparison with manufacturing industries. Production of the latter during the January—October period increased relatively smoothly by 20.6 percent compared with the corresponding period of the previous year (in 1949, 36.1 percent), whilst the former increased by only 3.6 percent (in 1949, 15.5 percent).

Among the manufacturing industries, the production of the textile industry increased by 57.7 percent (in 1949, 29.3 percent), followed by the chemical industry by 43.5 percent (in 1949, 43.9 percent), the metal industry by 43.5 percent (80.3 percent), the ceramic industry by 28.7 percent (67.9 percent), etc. It is noteworthy that the rates of production increase in 1950 exceeded those in 1949 in the textile and chemical industries.

Despite the favourable turn after the outbreak of the Korean war, the production of metals, timber and products thereof and foodstuffs during the same period declined by 6.6 percent, 4.8 percent and 1.5 percent respectively.

Business rationalization problems

It was indispensable for enterprises to rationalize production and to lower production costs after the enforcement of the economic stabilization programme. From the middle of 1949, rationalization, which requires only small funds, i.e. eliminating over-employment, normalizing workers allocation, advancing the operation rate, improving quality of products, etc., has been realized to a considerable extent and seemed to have almost reached the limit. However, the present production level is yet below that of pre-war days, and is still far below the international level as to quality and price.

Almost no equipment have been replaced since the War, and are all very much superannuated and inefficient. For example, equipment of over ten years accounted for 75 per cent of all equipment in the manufacturing branch of ordinary car chassis (in the leading 3 companies), 57 per cent in bearing factories (the leading 2 companies), 22 per cent in the electric machinery industry (the principal 5 companies), etc. The modernization of equipment, which is a fundamental principle of rationalization, must, however, be postponed till after 1950 owing to the lack of funds. Equipment funds required for enterprises under the jurisdiction of the Ministry of International Trade and Industry in the 1950 fiscal year were estimated to amount to 116.8 billion yen despite the considerable curtailment due to the depressionary trend at the beginning of the year.

The government also attach the greatest importance to rationalization, and decided upon long-term measures for the modernization of equipment in several industries through the Council for Industrial Rationalization, stress being laid on lowering the costs of basic materials such as iron and steel, coal, etc. Demands for long term equipment funds based on this programme were estimated by the Economic Stabilization Board to amount to 180 billion yen in the 1950 fiscal year and 238 billion yen in 1951.

There is a very big lack of equipment funds due to the delayed release of the U.S. Aid Counterpart Fund and the ex-

haustion of accumulated capital, on the other hand, demands for operating funds recently have increased. Equipment funds procured during the April-September period of 1950 reached only 58,009 million yen including internal reserves, in which funds supplied from the U.S. Aid Counterpart Fund were 3,022 million yen, stocks issued 9,408 million yen, bonds 12,946 million yen, and advances by financial institutions 20,643 million yen. Funds were procured relatively smoothly only in the textile industry.

The introduction of foreign capital to cover the shortage arising from the lack of power to accumulate capital and improve industrial techniques, was also in-

active, the investment being 545 million yen and technical aid 16 cases, despite the juridical procedure for receiving same having been completed in 1950.

Rationalization through modernization of equipment is stagnant as stated, whilst rationalization by other means considerably progressed, labour productivity being enhanced. Labour productivity greatly increased during the January-September period in the textile industry, followed by the chemical industry, mainly attributed to the rise of the operation rate, favourable turn in the supply of raw materials, elimination of over-employment and re-arrangement of labour allocation.

Index of Labour Productivity by Industries
(Nov. 1949=100)

	Mining Industry	Mfg. Industry	Metals	Machinery	Chemicals	Ceramics	Textiles	Timber	Food processing	Printing
1949 Nov.	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Dec.	105.1	104.0	104.8	101.4	102.5	107.1	105.7	105.9	117.9	98.2
1950 Jan.	98.6	101.1	103.6	104.1	100.2	94.5	93.7	83.1	95.1	92.0
Nov.	119.9	149.6	147.7	138.5	152.9	130.1	173.2	147.7	110.4	77.7

Note: Calculated from production index (compiled by G.H.Q.) and employment index based on the statistics compiled by the Ministry of Labour).

Decontrol continued to be carried out (61 articles in January 1950, 22 on November 22), and subsidies were completely abolished except on pig iron. This change to free competition greatly aggravated opposition between large and medium or small enterprises. Production concentration progressed in iron and steel (the large 5 companies accounted for 67.2% of the total production in April 1949 and for 70.7% in September 1950), in coal mining (the 20 big companies accounted for 70.1% and 73.8%). This tendency is remarkable in the machinery industry, which experienced a crisis as a result of its stabilization policy. For example, the big 5 telephone makers accounted for 47.5 per cent of the total production in April 1949 and 87.0 per cent in September 1950, the big 10 radio makers from 84.7 per cent to 96.7 per cent, the big 5 textile machinery makers from 45.8 per cent to 74.6 per cent, the large 10 bicycle makers from 44.0 per cent to 47.2 per cent, and the big 10 sewing machine makers from 75.0 per cent to 77.6 per cent.

Effects of the Korean war

Stocks held by manufacturers ceased to increase after September 1949, but still amounted to 84.5 billion yen at the beginning of 1950 (based on a survey by Jap-

anese Federation of Industrial Organization), being most pronounced in electric zinc, tin, aluminium, electric bulbs, and optical instruments, follow by coal, coke, mercury, antimony, rolled light metals, batteries, transformers, electric motors, radio sets, raw silk, spun silk yarn, etc. Besides these, government institutions had vast stocks, totalling in value 2.4 million yen held by the Industrial Reconstruction Public Corporation, 24.7 billion yen by the Foreign Trade Public Corporation for Mineral and Industrial Products, 35 billion yen by the Foreign Trade Public Corporation for Textiles. GHQ issued a memorandum on January 12, 1950, for the disposal of all these stocks except some commodities necessary for provisions up to the end of 1950. However, it was feared that the release of government stocks would oppress the domestic market because of the prevailing dullness in textiles (raw silk and products thereof), copper, zinc, mercury, graphite, dyestuffs, canned foods, etc. Furthermore, the monetary stringency delayed their release. Stocks at factories remained as it was in general until the outbreak of the Korean war, except for textile goods and non-ferrous metals favoured by the export activity.

Big changes followed the outbreak of the Korean war. Demands for special military purposes increased remarkably in August and September, led by increasing demands for automobiles, iron and steel and products thereof, timber, paper and products thereof, textile goods and machinery. Special demands, after a slight slow-down in October again increased rapidly after the middle of November, led by textile goods, canned foods, processed staple foods, daily necessities, etc. According to a survey by the Economic Stabilization Board, special demand contracts up to December 24 amounted to 122,220,000 dollars in goods (machinery \$34,404,000, metal and ores \$31,827,000, textiles \$19,940,000, timber, paper and their products, \$15,936,000, nonferrous metals and ores \$6,123,000, chemicals and drugs \$5,788,000, foods and drinks \$3,772,000, products from animals and plants \$1,845,000, miscellaneous goods \$495,000, oil and fats \$89,000) and 62,262,000 dollars in services. Thus, the stocks at factories decreased rapidly, especially machinery. The release of stocks held by Public Corporations also progressed rapidly, decreasing to only 150 million yen in the Foreign Trade Public Corporation for Textiles and 2,800 million yen in the Foreign Trade Public Corporation for Mineral and Industrial Products on December 25. And at the same time, exports showed a remarkable activity affected by the international expansion of armaments. Thus, production made an upward turn after September. In the manufacturing branches of iron and steel, automobiles, tyres for automobiles, etc., the number of workers increased and some idle plants were reopened, and despite the production increase, domestic demands were somewhat oppressed.

Prices have gradually advanced, especially those for basic raw materials, tending to exceed the price advance in

Index of Stocks at Factories
(1934-1938=100)

	Mfg. Industry in general	Metals	Machinery	Ceramics	Chemicals	Textiles	Others
1949 average	160.5	186.0	148.9	89.0	68.6	309.7	207.5
Oct. ..	186.3	195.9	171.5	99.2	83.2	307.5	229.2
Nov. ..	173.8	190.6	159.4	98.4	75.0	282.1	221.2
Dec. ..	161.4	169.9	143.6	91.1	68.8	272.8	196.6
1950 Jan. ..	176.5	191.9	182.4	126.8	79.2	272.9	181.5
Nov. ..	98.4	95.5	126.6	77.4	60.2	120.2	85.8

Notes: Compiled by the Ministry of International Trade and Industry.

manufactured goods, and consequently oppressed correlated industries. Because of these price advances in basic materials, their market prices exceeded their break-even point, such as for iron and steel. Thus, efforts were made to increase the production capacity of rayon pulp, iron and steel, etc., in place of rationalization and modernization of equipment in order to lower production costs.

On the contrary, imports of basic raw materials such as iron ore, coking coal, salt, raw wool, pulp, etc. have become difficult due to the international expansion of armaments, and are about to cause a check in the production schedule. In addition, accelerated by the overall re-control in the United States, problems connected with recontrol have now come to be discussed although controls after the War have not been completely abolished. As regards equipment funds, too much reliance cannot be put upon the U.S. Aid Counterpart Funds, and difficult problems still remain to be solved in the future.

Furthermore, it has to be borne in mind that, depending on the changes which may take place on the Korean front, the special demands for machinery, iron and steel may decrease.

Thus, in spite of the present production activity, Japanese economy is confronting many difficult problems due to the weakness of foundation of our economy.

Cotton Spinning And Weaving Industry

The Japanese cotton spinning and weaving industry, which was but a shell of its former self as a result of war damage, was rehabilitated in 1950 to the level of about 50 per cent of the pre-war period, owing to the welcome import of raw cotton under the U.S. Aid Fund for Japan and also because of its strong exporting power. Especially after the second half of 1949, the industry made further rapid progress both in production and exports, when most all other industries were suffering from a depression due to the enforcement of the economic stabilization programme.

active, and thereafter, in addition to the international price rise in raw cotton and in manufacturing cost, the increasing requirements for cheap cotton tissues since the outbreak of the Korean war seem to rely on Japanese goods. Thus, export contracts for cotton tissues concluded in 1950 are estimated to amount to 1.5 billion linear yards, and the actual export amounted 1.08 billion square yards, ranking first in international exports, and exceeding the United Kingdom (0.8 billion sq. yds.) and the United States (0.55 billion sq. yds.).

(3) As regards exports by areas, no big changes were witnessed, though the relative importance of Asia and the American continents showed a slight increase.

Principal Indices of the Post-war Japanese Cotton Industry

	Number of spindles	Number of weaving machines	Imports of raw cotton	Pro- duction of cotton yarn	Pro- duction of cotton fabrics	Exports of cotton fabrics
Average of 1932-36 ..	100	100	100	100	100	100
1946	29	42	19	10	7	—
1947	33	50	16	20	19	15
1948	38	59	12	21	25	17
1949	41	67	25	26	27	30
1950	47*	72†	42‡	39**	42**	43‡

Note: * at the end of November. ‡ at the end of September. † estimates.

** preliminary.

Production: (1) Imports of raw cotton amounted to 1,179,000 bales from January 1950 to September, in which American cotton accounted for 79 per cent hitting a postwar high, whilst the relative importance of Indian, Pakistan and Egyptian cotton decreased. Imports from Central and South America, the Near East and other areas showed a slight increase because of the emergency purchase due to the production decrease of American cotton. Total imports in 1950 are estimated to reach 1.55 million bales or a 70 per cent increase compared with the previous year.

(2) The interim authorized limit of production capacity of 4 million spindles (decided in July, 1947) was abolished under a GHQ memorandum, on June 27, one month after the successful conclusion of a conference regarding the cotton industry among the United Kingdom, the United States and Japan (May 12-17). Spindle installed numbered 4,260,000 in September. On the other hand, there is a relative surplus of weaving machines of 62 percent compared with the number of spindles, numbering 227,000. Especially in enterprises solely engaged in weaving, this tendency is more apparent than in enterprises engaged in both spinning and weaving.

(3) The production of cotton yarn and tissues in 1950 increased by 50 per cent and 57 per cent respectively com-

pared with the previous year owing to the increased import of raw cotton a forecasted further advance in the price of raw cotton and the increased demands, both domestic and overseas, affected by the international expansion of armaments. The operation rate reached 90 percent in enterprises engaged in both spinning and weaving, and 60 per cent even in enterprises solely engaged in weaving.

Increased production for export purposes is still oppressing the domestic market, the rate of production for export purposes and domestic use being 66 per cent and 34 per cent of the total. Nevertheless, domestic consumption per capita is estimated to increase to 2.2 pounds (1.17 pounds in 1949) due to an increase in the total supply.

Foreign Trade: (1) Foreign trade control has gradually been alleviated, and imports of raw materials and exports of products depend more and more on the extent of the self support of enterprises, that is, the decontrol of the export price of cotton yarn and tissue (February, 1949), the settlement of a single exchange rate (April, 1949), import of raw cotton on civilian trade (January, 1950—that of American cotton, July 1950), etc. were successively carried out.

(2) Despite the international currency devaluation after September 1949, exports of cotton manufactures were

Post-war Exports of Cotton Fabrics

	Cotton yarn (1,000 lbs.)	Total (1,000 lbs.)	Asia %	Cotton fabrics			Africa %	Oceania %
				Europe %	America * %			
1946 †	3,359	1,963	100.0	—	—	—	—	—
1947	23,881	377,256	52.3	33.6	2.1	8.8	3.1	—
1948	9,261	422,200	66.2	15.5	3.2	14.9	0.2	—
1949	22,389	745,787	52.5	28.6	2.2	15.2	1.5	—
1950 †	27,000	1,075,000	—	—	—	—	—	—
Jan.-Mar.	8,781	256,685	—	—	—	—	—	—
Apr.-June	5,680	281,785	61.5	19.7	7.3	10.7	0.8	—
July-Sept.	6,694	275,201	—	—	—	—	—	—
October	1,775	83,041	—	—	—	—	—	—
November **	502	82,003	—	—	—	—	—	—

Note: * Total of North, Central and South America. † July-December. ‡ estimates. ** preliminary. Based on the statistics by the Ministry of Finance.

By countries, exports to Pakistan ranked first (19.2%), followed by Indonesia (15.5%), the United Kingdom (11.2%), Thailand (8.8%), etc. (in 1949, the United Kingdom accounted for 22.9%, followed by Indonesia of 12.6%). As a result of the decrease in relative importance of the United Kingdom, grey cotton tissues decreased whilst bleached and finished goods increased.

(4) The average export price in October was much higher than that in May, that is, a 45 per cent rise in cotton yarn (20s, per 1 lb., from 213.60 yen to 313.20 yen), a 79 per cent rise in cotton tissues (calico No. 2003, per yard, from 53.52 yen to 96.00 yen), whilst the price of raw cotton advanced by 21 per cent during the same period (SLM, white, 13-16, per 1 lb., from 115.79 yen to 139.99 yen). The price of cotton goods is forecasted to continue strong in the future, because of the international short supply of raw cotton, the increasing demands for military purposes, the stagnation of production due to activity in the munition industries and emergency purchase by consumer countries.

Future: The allocation of American cotton was fixed at 693,000 bales from

August 1950 to March 1951, and is estimated to be about 170,000 bales from April to July. It seems therefore difficult to satisfy demands, which are estimated to be at least 1 million bales. The situation of the industry in 1951 is therefore uneasy having regard to the condition mentioned.

Iron and Steel Industry

Subsidies granted for iron and steel have played a great role in the rehabilitation of the post-war iron and steel industry, but after the enforcement of the Dodge plan, these subsidies were gradually curtailed or abolished, the enterprises being left to stand on their own feet.

In 1950, the second and third curtailment and the abolition of price subsidies were carried out on January 1 and July 1, and accordingly, the official prices were revised. Subsidies for imports were also abolished in April on coal and pig iron, and in July on iron ore. In particular, the third curtailment and abolition was the heaviest, comprising a curtailment of subsidies on pig iron by 50 per cent and the abolition of those on steel materials.

Prices and Subsidies on Iron and Steel
(per ton)

	Producer's price		Consumer's price		Subsidy	
	yen	\$	yen	\$	yen	\$
Pig iron (No. 2, for steel)						
Sept. 7, 1949	17,000	47.2	7,400	20.5	9,600	26.7
Jan. 1, 1950	18,360	51.0	9,750	27.1	8,610	23.9
July 1, 1950	(17,740	49.2	11,880	33.0	5,860	16.2
	(15,860	44.1	11,880	33.0	3,970	11.1
Oct. 28, 1950	(16,300	45.3	12,600	35.0	3,700	10.3
	(15,860	44.1	12,600	35.0	3,260	9.1
Steel (Steel bar, 19 mm)						
Sept. 7, 1949	23,000	53.9	13,760	38.8	9,240	15.1
Jan. 1, 1950	25,540	71.0	18,000	50.0	7,540	21.0

Under these circumstances, it became indispensable for enterprises to lower costs through business rationalization, the necessity for which was accelerated by export inactivity, decreased domestic demands and increasing stockpiles at the beginning of the year. The Japan Iron and Steel Manufacturers' Association stressed in its pamphlet, "The Present and Future of the Japanese Iron and Steel Industry," the existence of great obstacles in the way of rationalization of

the industry because of the high price of raw materials, especially coal. The government, also realizing the importance of the rationalization of the industry, studied the matter through the Council for Industrial Rationalization and decided, on August 18, on expansive measures for rationalization of that industry and also of the coal mining industry, stress being laid on the modernization of equipments. Thus, production costs were lowered by about 13 per cent for pig iron and about

15 per cent for steel materials, which was nevertheless far above the international level.

Production Despite the accumulating difficult problems, production increased rather favourably, owing to the smooth supply of raw materials and electric power, improvement of the labour situation and the enforcement of the rationalization plan through increasing the operation rate, in spite of the short supply of scrap iron.

However after the outbreak of the Korean war, the special military demands for machinery and iron and steel gradually increased, and exports turned favourable, as a result of which the industry became active. Production which decreased for a while due to the curtailment and abolition of price subsidies, turned upwards and showed a remarkable activity after September. The special military demands greatly increased up to October and thereafter, though slowing down a little, increased steadily to about 30 million dollars up to December 24. Exports also increased remarkably after June due to changes in the international situation. Because of the international price rise, export prices advanced rapidly, exceeding the break-even point (steel bar 16 mm. per ton, 72 dollars).

Price Movement of Steel Bar (16 mm)
(per ton)

Date of shipment	Price	
	yen	\$
1950 Aug.-Sept.	24,000	66.7
Sept-Oct.	24,000	66.7
Oct.-Nov.	25,000	69.4
Nov.-Dec.	26,000	72.2
Dec.-Jan.	27,000	75.0
1950 Jan.-Feb.	29,000	80.6
Feb.-Mar.	30,000	83.3
Mar.-Apr.	32,500	90.3

Owing to the active special demands and exports, the supply for the domestic market was reduced, especially in thin plates, tin plates, silicon steel plates, high grade finished steel plates, galvanized

sheets, etc. According to a survey by the Economic Stabilization Board, the demands for ordinary rolled steel during the 1951 fiscal year will amount to 4,657,000 tons, whilst the production programme of the Ministry of International Trade and Industry was fixed at 3.2 million tons of pig iron and 4.0 million tons of ordinary rolled steel.

Exports of Iron and Steel (in 1,000 tons)

	Primary products	Secondary products	Others	Total
1948 ..	2.0	—	19.8	22.1
1949 ..	18.8	4.4	9.6	32.9
1950 Jan.	24.2	8.2	20.5	53.0
Feb.	16.7	7.5	20.4	44.6
Mar.	13.5	5.7	18.6	37.9
Apr.	15.9	9.3	7.4	32.6
May	11.7	8.0	5.7	25.5
June	22.3	12.6	28.6	63.6
July	26.6	12.0	55.8	94.5
Aug.	29.2	7.1	23.8	60.1
Sept.	48.2	6.2	12.3	66.7
Oct.	57.4	10.8	11.8	80.1
Nov.	68.9	11.5	22.3	103.2

Note: Figures are monthly averages or calendar month. Annual figures related to the fiscal year.

Imports of Raw Materials

	Iron ore (1,000 t.)	Coal (1,000 t.)	Heavy oil (1,000 kl.)
1949	1,518	1,482	1,166
1950			
Jan.-Mar.	264	91	138
Apr.-June	336	48	162
July-Sept.	437	321	61
October	141	97	4

The production increase schedules by enterprises, which depend greatly on the U.S. Aid Counterpart Fund, appear to be difficult to accomplish in view of the announcement by Mr. Dodge, who warned not to rely too much upon the U.S. Aid Counterpart Fund. Furthermore, it is doubtful whether the import of Kailan coal (scheduled in the 1951 fiscal year, at about 1.2 million tons) and Manchurian coal (about 1 million tons) can be realized or not.

Thus, it appears that the production of iron and steel in 1951 will be checked greatly by the lack of funds and raw materials.

Coal Mining Industry

The monthly output of coal averaged 3.2 million tons except in March and August, the total output in 1950 reaching 38.4 million tons or an 0.4 million tons increase compared with the previous year.

A noteworthy tendency is the increase in output of high grade and a decrease in low grade coal, which has effected the output by areas, as a result of which in Hokkaido and Kyushu districts where there exist many high grade mines, there has been much activity, whilst the production in Tohoku and Seibu districts where the coal is mainly low grade, has declined. This tendency also denotes a predominance of big enterprises in the Hokkaido and Kyushu districts over the medium and small enterprises in other

districts, because of the characteristics of the Japanese coal mining industry.

Coal deliveries in the January-March period maintained a monthly 3 million ton level, it being the demand season, but after April, they decreased far below that level and stocks rapidly increased due to monetary stringency, industrial inactivity and the summer non-demand season. As a result, enterprises suffered so much from severe sales competition they were compelled to sell at sacrifice prices to prevent possible financial difficulties due to the tight money situation.

However economic activities consequent on the outbreak of the Korean war affected the coal mining industry favourably, and with the advent of the demand season, coal deliveries gradually increased to exceed production in October, and stocks accordingly decreased.

Reflecting the remarkable activity in the second half of the year, deliveries during the year increased greatly to exceed the 1930-35 level despite the dullness in the first half of the year.

At the same time, however, the difficulties in transportation continue due to the transport of special military purposes and that of correlated industries, so much so that the problem has become serious, from the point of view of the demand and supply of coal.

Rationalization: Rationalization of the coal mining industry has been continuing. The number of workers, especially those outside mines, has gradually decreased, the rate of pit miners to total workers increasing to 62 percent in November. Whilst production increased, the output per miner per month reached 9.8 tons in November in comparison with 8.0 tons during the January-August period. Improvement in quality was also noteworthy, the average calories per kg in the whole country during the April-June period reaching 6,133 calories or a 300 calories increase compared with the corresponding period of the previous year.

Thus, the operations of the coal mining industry in general turned to black figure, though still suffering in particular due to the repayment of the principal and interest on debts amounting to about 58 billion yen. In spite of the fact that further rationalization cannot be achieved without an increase in investment for equipments, the industry is confronting difficult problems in connection with the Dodge plan in procuring the required equipment funds.

Ammonium Sulphate Industry

The industry, which was under the strict control and benevolent protection of the State after the termination of hostilities in order to tide over the prevailing food crisis, was impelled toward a self-sufficiency basis after the enforcement of the Dodge plan. Finally, in August 1950 control was completely abolished after lasting 14 years. Subsidies and government purchase by the Fertilizers Distribution Public Corporation on a plural price basis were also abolished at the same time. Hence enterprises have now to exert efforts toward lower production costs through business rationalization. On the other hand, measure

for assuring the procurement of operating funds, promoting exports and finding a solution to the problem of high priced coal, which is the main obstacle in the ammonium sulphate industry by gas process, require urgent attention.

Production Cost of Sulphate of Ammonia (in yen per ton)

	Electrolytic process		Gas process	
	%		%	
Cost of raw materials	7,145	(40.5)	12,696	(61.7)
Indirect costs of factories	7,640	(43.3)	5,585	(27.1)
Other indirect costs	2,870	(16.3)	2,302	(11.2)
Total	17,655	(100.0)	20,583	(100.0)

Figures indicates standard costs studied by the ESB, so as to decide official price in April 1950.

Production in 1949 increased by 30 percent compared with 1948, due to the efforts of enterprises to effect a production increase in order to lower costs, aided by the decontrol of coal and coke. Production in the first half of 1950 also exceeded the level of 1949 by 32 percent, because of the favourable supply of electric power and efforts to advance the operation rate before decontrol. Later, production became somewhat dull affected by the electric power shortage and fears for overproduction, but it again increased from September, that during the second half of 1950 estimated at 1.5 million tons, or more than a 20 percent increase compared with the highest record of 1.24 million tons in 1941.

Production capacity reached an annual of 2.1 million tons in October 1, 1950, in which 3 factories exceeded the annual 0.25 million ton level. The target for augmenting capacity by enterprises was fixed at 2.72 million tons, the realization of which depends firstly on the supply of equipment funds, secondly on securing both domestic and foreign markets, and finally on the supply of electric power and pyrites, especially the former. Though the supply of electric power in 1950 was rather favourable, it was not due to the increasing production capacity but to the abundant water supply, hence the situation in the future is not so optimistic. The supply situation of pyrites can be bettered in the future by an improvement in price control and the transportation capacity, though the present situation is a little difficult.

INDIA'S FOREIGN TRADE IN 1950

The most important feature of India's foreign (sea and air-borne) trade trends during recent years has been the rising tide in the value of her export trade, which has now reached an all-time record. It amounted to Rs. 4,160 million in 1950-51. The estimate for the current and can be estimated at Rs. 5,457 million in 1950-51. The estimate for the current year is based on the first six months' actuals and the proportion which the similar figure for last year bore to total for the year. The trading position is as follows:

		(Value in Million Rs.)			
		1948-49		1949-50	
				6 months	
				Apr.-Sept.	
Sea & Air					
borne trade					
Exports		4,160	4,704	1,863	2,183
Re-exports		73	132	88	75
Total exports		4,233	4,836	1,951	2,258
Imports		5,429	5,801	3,224	2,785
Balance of trade					
in merchandise		-1,196	-765	-1,271	527

Last year, i.e. in 1949-50, imports by sea amounted to Rs. 5,600 million as against Rs. 5,429 in the preceding year, a rise of 3.8 percent in value or by Rs. 171 million. The rise during the period in the export trade was Rs. 544 million or by 13 percent. As the result, the unfavourable balance of trade became reduced from Rs. 1,196 million to Rs. 765 million or by 36 percent.

From the trends seen in the post-devaluation period, it would appear that devaluation has had a favourable effect on the rupee value of the export trade. The total value of exports by sea in the 11 months following devaluation, i.e. from October 1949 to August 1950, was Rs. 4,580 million, as compared with Rs. 3,600 million in the corresponding im-

mediate pre-valuation period of 1948-49. This represents an increase of 38 percent. The appreciation was particularly produced in the case of exports to hard currency countries, which amounted to Rs. 2,270 million as against Rs. 890 million, or an improvement of 43 percent.

The main increases are as follows:

		(Value in Million Rs.)	
		1948-49	1949-50
1. Cotton piecegoods	.....	287	748
2. Cotton manufacture other than piecegoods	.....	41	180
3. Fruits & Vegetables (mainly cashewnuts)	.....	68	80
4. Spices (mainly black pepper)	.....	93	185
5. Tobacco	.....	88	133
6. Mica	.....	46	88
7. Lac	.....	69	81
8. Manganese ore	.....	29	60
9. Groundnut seed	.....	87	74
10. Linseed	.....	28	41
11. Cotton waste	.....	54	91
12. Raw wool	.....	20	46
13. Hides & Skins—tanned	.....	118	212
14. Coir yarn & manufacture	.....	35	65

That the rise in value is not merely due to higher prices but also to an improvement in the volume of trade, is shown by the fact that the quantum of trade has also improved. As compared with 1948-49, the quantum of exports improved by 7.4 percent in 1949-50 and that of imports by 3.4 percent. Between April and August 1950, the monthly quantum as compared with the monthly average of 1948-49, was better in the last month of the period, as regards both exports and imports, by 9 percent and 16 percent, respectively. The trend was rising in the case of the former and erratic in the case of the latter.

In the April-August period, the terms of trade were favourable to India. While export values appreciated, import values were slightly lower, as the following table will show:

the ammonium sulphate industry. However, in 1950, it was abruptly decided to import 220,000 tons of ammonium sulphate annually or 25 percent of the total domestic production including the import of ammonium nitrate, which greatly oppressed the domestic market. The industry has already been rehabilitated to a level where not only imports are not needed but there is a considerable export capacity.

Opposition was expressed by consumers to export for fear that the price might be raised in the domestic market, which became a problem for the government and parliament. Later, under a GHQ memorandum it was decided to export 93,000 tons of ammonium sulphate up to May, 1951 (77,000 tons for Formosa, 15,000 tons for Hongkong and other countries.)

Markets of South East Asiatic countries remained almost untouched, the production there being very low. Thus, the future prospects for exports to those areas seems to be bright, though in order to realize those expectations, the problems must be solved of increasing production and especially the supply of electric power.

Index Numbers of Declared Values
(Base 1948-49=100)

1950	Exports	Imports
April	108.2	104.1
May	111.7	100.0
June	113.8	100.6
July	106.9	98.0
August	109.1	100.4

The above figures relate to trade by sea (and air) India's over-all trade includes a substantial measure of trade across the land frontiers of the country, particularly trade with Pakistan. This trade also should be taken into account in order to have a complete picture of the country's total foreign trade. Such figures, of a preliminary and incomplete nature, are available for the latest period and they are given below:

Total Trade: April—September 1950

		(Value in Million Rs.)
		(Sea, land and air)
Exports	.....	2,278
Re-exports	.....	75
Total exports	.....	2,353
Imports	.....	3,080
Balance of trade in merchandise (after some adjustments)	.....	-727

The above adverse balance of Rs. 727 million compares with an adverse balance of Rs. 527 million by sea alone. As compared with the sea-borne trade, exports are slightly better by Rs. 95 million. Imports show a substantial augmentation of Rs. 295 million, which should be mainly due to the value of raw jute imported from Pakistan.

Exports of Manufactures

Exports of Indian Merchandise
(Value in Million Rs.)

		April-September		
		1943	1949	1950
1. Food	.....	350	464	515
2. Raw Materials	.....	536	421	401
3. Manufactures	.....	1,205	971	1,256
Total (including other)	.....	2,100	1,855	2,133

As compared with the previous year, the value of food exports increased by 11 percent, while that of raw materials declined by 5 percent. The manufactures group improved by 30 percent. Thus, it may be stated that the external market for Indian manufactures is broadening. Of the value of manufactures, cotton, jute and woollen manufactures are the three traditional items in which the aggregate value increased from Rs. 804 million to Rs. 1,030 million. Deducting these values from the total, the value of miscellaneous manufactures, mainly consumer goods, also advanced appreciably, from Rs. 167 million to Rs. 226 million, i.e. by 35 percent—while the advance in the traditional group is only 28 percent.

The rise in value in the food group is mainly contributed by spices (black pepper) and fruits and vegetables (mainly cashewnuts). The former advanced from Rs. 67 million to Rs. 84 million or by 25 percent and the latter from Rs. 34 million to Rs. 43 million or by 2 percent. The decline in the raw material group is accounted for mainly by raw cotton and raw jute, the supply position of which was difficult during the year. Oil-seeds also decreased to some extent (Rs.

Demand and Supply of Sulphate of Ammonia

(in ton)

Monthly av.	Sulphate of ammonia		Import of ammonium nitrate
	Production	Export	
1948	76,280	2,237	— 23,373
1949	98,788	—	— 16,519
1950 Jan.	111,536	—	— 18,690
Feb.	99,636	—	— 28,079
Mar.	113,055	— 29,384	19,100
Apr.	131,533	— 30,125	—
May	151,243	3,500	35,145 8,650
June	136,298	— 17,130	—
July	134,703	3,950	—
Aug.	112,660	7,396	81,153
Sept.	119,558	7,885	—
Oct.	132,270	—	—
Nov.	129,150	—	—
Dec.	124,500	—	—
Total	124,687	—	—

The import of ammonium nitrate played a positive part in tiding over the food crisis, though its importance has gradually decreased due to the rehabilitation of

6 million). There were increases under 'Other non-metallic mining and quarrying products' (mostly mica—Rs. 27 million), hides and skins (raw—Rs. 10 million) and metallic ores and scrap iron (chief manganese—Rs. 13 million).

Total exports improved from Rs. 1,865 million to Rs. 2,183 million, or by 17 percent.

Decline In Imports

On the import side, there was a decline in over-all value—from Rs. 3,224 million to Rs. 2,785 million, i.e. by 10 percent. This was brought about mainly by a decrease in the value of manufactures imported—from Rs. 1,776 million to Rs. 1,212 million, the decrease being 32 percent. The break-up values were as follows:

Imports	(Value in Million Rs.)			
	1948	1949	1950	
Import Group				
1. Food	541	618	366	
2. Raw Materials	568	800	1,196	
3. Manufactures	1,285	1,776	1,213	
Total incl. others	2,413	3,224	2,785	

The raw material group increased by Rs. 396 million or by 50 percent. This was brought about mainly by increase in raw cotton, from Rs. 371 million to Rs. 680 million or 80 percent. The food group declined approximately by Rs. 252 million or by 40 percent. This was mainly due to a decline in the recorded value of foodgrains imported, as final figures yet remained to be adjusted.

In the manufactures group, there were declines in chemicals, drugs and medicines (Rs. 29 million), cutlery, hardware and implements and instruments (Rs. 41 million), dyes and colours (Rs. 10 million), electrical goods and apparatus (Rs. 14 million), glass and glassware (Rs. 15 million), machinery of all kinds (Rs. 92 million), paper, paste board and stationery (Rs. 27 million), vehicles (Rs. 41 million), Cotton yarn and manufacture (151 million), other yarn, and textiles (Rs. 100 million) and miscellaneous items (Rs. 56 million). Thus, there were declines all along the major sub-groups. The only two groups which had registered increases were iron and steel manufacture (Rs. 19 million) and non-ferrous metals (Rs. 35 million). The decreases can be attributed to a variety of causes, the chief of them being: (1) Decrease in quantum; (2) Decrease in value. This would appear to be a major cause as the declared value of the manufactured group was generally decreasing during the period; (3) Import Control policy, which sought to restrict imports to essential goods; and (4) Greater availability of domestic manufactures in certain lines.

Trade by Countries

Of the export of Indian merchandise, considered from the point of view of destination, the United States took an increased share. The value of goods exported to that country increased from Rs. 269 million to Rs. 445 million—which represents an increase of 74 per cent. Her share in the local export trade also increased, from 15 to 21 per cent. Despite these increases, however,

the U.K. continued to be the best market, although exports thereto slightly declined from Rs. 519 million to 513 million. The values according to chief destinations were as follows:

Exports: Destinations (Value in Million Rs.)	April-September	
	1949	1950
Destination		
1. U. K.	519	513
2. U. S. A.	269	445
3. Australia	121	135
4. Canada	36	58
5. Argentine	26	13
6. France	25	13
7. Italy	28	18
8. W. Germany	27	22
9. Holland	19	30
10. Belgium	26	23
11. Egypt	19	24
12. E. Africa	47	40
13. Iran	20	20
14. Pakistan	86	86
15. Ceylon	62	72
16. Aden	17	42
17. Burma	51	67
18. Malaya (incl. Singapore)	36	106
19. Siam	18	18
20. Hongkong	19	26
21. Japan	28	13

Viewing import according to country of origin, it is seen that America occupied importance of place as the principal supplier to India in 1950 with a value of Rs. 649 million as against Rs. 503 million in the previous year, thus ousting the U.K. from that place which she had occupied in the previous year. This is mainly due to the fact that, in the period under review, India imported raw cotton worth Rs. 322 million from the United States, as against practically nothing in the corresponding period of 1949. There were decreases in respect of other items. On balance, the value of imports from that country increased by Rs. 146 million or 30 percent. The value of machinery imported from that country declined by Rs. 42 million.

The decrease in the value of imports from the U.K. was from Rs. 935 million to Rs. 605 million, i.e. by 35 percent or 330 million. There were declines under

almost all heads, including machinery.

The values according to main countries of origin were as follows:

Imports: Origins (Value in Million Rs.)	April-September	
	1949	1950
Countries of Origin		
1. U. S. A.	503	649
2. U. K.	935	605
3. Australia	120	160
4. Canada	57	57
5. Peru	11	15
6. France	22	42
7. Italy	106	39
8. W. Germany	29	32
9. Holland	35	31
10. Belgium	26	61
11. Switzerland	34	31
12. Sweden	39	28
13. Egypt	208	157
13. E. Africa	100	139
15. Iran	164	210
16. Pakistan	88	88
17. Ceylon	37	9
18. Burma	110	79
19. Malaya (incl. Singapore)	76	85
20. Siam	60	15
21. Hongkong	17	7
22. Japan	175	40

Export Values

The values of the main commodities figuring in the export trade of India were more than maintained, except in the major instances of tea, oil-seeds, raw cotton and raw jute and manufacture when these were declining. There were, for instance, increases in spices (Rs. 17 million), lac (Rs. 36 million), mica (Rs. 27 million), lac (Rs. 12 million), raw hides and skins (Rs. 10 million), manganese (Rs. 12 million), oilseeds (Rs. 3 million), raw wool (Rs. 10 million), tanned hides & skins (Rs. 17 million), cotton manufactures (Rs. 280 million) and woollen manufactures (Rs. 8 million). The decrease in the case of tea amounted to Rs. 19 million, oilseeds to Rs. 6 million, raw cotton to Rs. 10 million, raw jute to Rs. 82 million and jute manufacture to Rs. 39 million. The increases were mainly due to increases in prices, but in many cases they were due to increases in quantum and value of the principal articles exported, given below, would show this:

Commodity Exports. (April—September)					
Commodity	Unit of Quantum	Quantum 1949	Quantum 1950	Value Min. Rs. 1949	Value Min. Rs. 1950
1. Boots and Shoes	1000 pair	669	933	2.3	2.3
2. Coffee	000 cwts.	15	43	2.1	10.4
3. Oil Manufacture	000 tons	758	531	27.6	35.4
4. Cashew kernels	000 tons	9	11	26	326
5. Hardware & Cutlery	—	—	—	1.6	2.7
6. Raw Hides	Tons	488	330	1.1	1.1
7. Raw Skins	Tons	6,296	7,193	31.0	41.0
8. Lac	000 cwts	177	276	31.6	42.5
9. Tanned Hides	Tons	4,875	5,585	29.3	38.1
10. Tanned Skins	Tons	3,398	2,430	33.4	41.5
11. Manganese	000 tons	328	350	22.4	33.9
12. Mica	000 cwts	113	178	19.8	47.2
13. Castor oil	Min. gals	4	1.8	2.4	11.0
14. Groundnut oil	Min. gals	2.9	1.6	20.7	12.1
15. Linseed oil	000 gals	810	667	5.9	5.2
16. Paraffin wax	Tons	7,378	13,796	6.8	15.5
17. Groundnut seed	000 tons	28	6	21.4	5.0
18. Linseed	000 tons	40	31	24.2	22.9
19. Pepper	000 cwts	138	104	47.4	67.5
20. Turmeric	000 cwts	38	101	67.0	83.9
21. Tea	Min. lbs.	185	255	295.3	276.3
22. Raw cotton	000 tons	24	7	43.7	17.3
23. Cotton Waste	000 cwts	644	613	28.1	44.6
24. Cotton twist & Yarn	Min. lbs.	6.1	24.7	10.6	51.9
25. Cotton piecegoods	Min. yds.	186	476	189.3	468.5
26. Raw jute	Tons	71,286	526	82.1	—
27. Jute manufactures	000 tons	470	318	679.4	558.4
28. Raw wool	Min. lb.	9	12	11.4	21.3
29. Carpet and Rags	Min. lbs.	5	7	16.9	24.6
30. Art Silk piecegoods	Min. yds.	4	3	4.8	4.6
31. Raw tobacco	Min. lbs.	28	34	46.2	80.2
32. Tobacco manufactures	Min. lbs.	1.4	2.2	5.8	8.2

SINGAPORE STOCK & SHARE MARKET REPORT

A fair amount of business was done on the Malayan markets in nearly all sections, with a good turnover. The United Nations successes in Korea inspired hopes of a not-too-distant termination to the war, although too great optimism was offset by the difficulties encountered in Iran.

The intention of the Federation Government to withhold part of rubber proceeds in a stabilization fund has now been made public, but the Rubber Producers' Council has rejected the scheme on the ground that it is unsound.

Industrials saw a continued rise in Gammons, but otherwise little of interest, with buyers driving hard bargains.

Among Dollar Tins, Rantau showed a rise from \$2.50 cum to \$2.60 ex dividend, Jelebu rose to \$1.22½ and Hong Fatt to 95 cents.

Australian Tins showed an advance in Kuala Kampar 37/- to 39/6, Pungah 23/6 to 24/6, Austral Amalgamated 10/6 to 11/-.

Sterling Tins with a quiet market in London had little business locally.

Rubbers were in demand: Tambalak had an increase to \$1.20 on announcement of the final dividend of 25% which will make 30% for the year ended 31.3.51 against 5% last year. Interest was shown in Borelli which rose to \$1.60.

Local loans were in good but unsatisfied demand and Malayan funds went into British 3½%.

Increasing interest was displayed in Australian investments.

Business Done:—

Industrials. Fraser & Neave Ord. \$3.35, Gammon \$2.00 to \$2.10, Georgetown Dispensary \$1.95, Hammer \$35.00, Hongkong Bank \$725, Malayan Breweries \$5.55, Malayan Collieries \$1.55, Malayan Cement \$25, McAlister \$33.75, Raffles Hotel \$2.90, Robinson Ord. \$2.90, Straits Steamship \$17.50, Singapore Cold Storage \$4.10 to \$4.15, Straits Times \$3.20 to \$3.32½ c.d., Uniteds \$9.70 and \$9.75, Union Insurance of Canton \$387.00.

It is seen that in most cases, quantity and unit value have increased, leading to the conclusion that, where increased values are recorded, they are due, in most cases, to increases in the quantities exported, as well as to increased prices fetched. In very few cases, quantity has declined but value risen.

As regards commodity imports, mainly values are available; and therefore it is not possible to state in every case whether an increase has been due to increase in quantum, value or both. But, as already pointed out, since the declared values of imports have been lower in many cases, the increased values in such cases might have been mainly due to increase in quantity. The one noteworthy point about imports is that the programme is so arranged as to ensure an adequate supply of essential raw materials, stores and machinery required for the susten-

Dollar Tins. Batu Selangor 81 cents, Hong Fatt 91 to 95 cents, Jelebu \$1.20 to \$1.22½, Kuchai \$2.45 to \$2.52½ c.d., Lukut 40 cents, Petaling \$5.40 to \$5.50, Rantau \$2.50 c.d. to \$2.60 x.d., Talam \$2.25 and \$2.22½.

Australian Tins. Austral Amalgamated 10/6 to 11/-, Jelapang 22/3, Kampong Kamunting 25/6 to 25/-, Kramat 11/6 to 11/9, Kuala Kampar 37/- to 39/6, Larut 14/-, Pungah 23/6, to 24/6, Rawang Concession 31/-, Rawang Tinfields 7/6, Takupa 25/3.

Sterling Tin. Bangrin 36/7½, Kamunting 13/9, Puket 7/6.

Rubbers. Ayer Panas \$1.45, Benta \$1.07½, Borelli \$1.60, Glenealy \$1.30, Indragiri .37, Jeram Kuantan \$1.55, Kuala Silim .60, Nyalas .80, Sandycroft .69, Sungei Ramai \$1.00, Tambalak \$1.15 to \$1.20.

Australian Investments. Argo Investments 11/6, Rights 1/5, Argus 7% Pref. 20/9, Associated Pulp 38/8, Felt & Textile 53/-, Foy & Gibson 5% Pref. 24/3, Hume Industries 5% Pref. 20/9, Swan Breweries 18/3. All Australian.

Sundry Sterling Investments. British New Guinea 2/4½, Oriental Telephone 56/6.

Company Reports:—

HONGKONG TIN LIMITED operated its dredge in moving non-productive material for over three months in the year ended 30.9.50. This was done in order to prepare a paddock to be used for tests with a grab dredge. A syndicate has been formed to which Hongkong Tin will contribute £8,000 for the purpose of perfecting methods to mine rich irregular leads of tin bearing material which lie beyond the reach of buck dredges.

Profits for the year £36,487 after profits tax, represents 24.3% on the capital. Dividends amounting to 25% have been paid. Net liquid assets in balance sheet at £184,520 are equal to 6/1½ per share. Planned additions to the bucket dredge will cost, it is estimated, £120,000 in 1953 when dredge will stop for 6 months for installation of new plant.

ance and development of industries. Raw cotton and non-ferrous metals are instances in this connection. Although the value of capital goods imported has declined from Rs. 542 million to Rs. 449 million still it is still higher than the value in 1948 amounting to Rs. 392 million. When the current fiscal year closes in March next, the value of capital goods imported may be expected to be of the order of Rs. 900-1,000 million, as against Rs. 1,050 million in 1949-50 and Rs. 809 million in 1948-49. Thus, during the last three years, industrial expansion has been benefited by the addition of imported capital goods worth nearly Rs. 3,000 million, which must have been utilised in replacement, renewals, additions and expansions.

The values of re-exports in the first six months of 1950-51 amounted to only Rs. 75 million, as against Rs. 88 million in the corresponding period of last year.

KILLINGHALL TIN LTD., operating one dredge made £62,398, 41.6% after profits tax in year ended 30.9.50. Net liquid assets in balance sheet work out at 2/7.6d, per share. Killinghall Tin is also interested in the grab dredging syndicate mentioned under Hongkong Tin Ltd.

PUNGAH TIN DREDGING LTD. Directors announced receipt of payment of the Company's War Damage Claim against the Siamese Government. Total assessment was £119,016 which was reduced by advances already received to a balance payment of £73,700, the latter amount is equivalent to 3/5d per Pungah share.

BASSETT RUBBER COMPANY LTD., made £129,779 (18.5%) for 1950 and a first post war dividend of 12% is recommended. Net liquid assets \$141,572 are equal to 20.2 cents per share. All in costs were high at 44.2 cents per lb. on a crop averaging 370 lbs. per acre. Of the mature rubber 936 acres only 25 acres are budded, 80 acres have been replanted since the war.

KAMASAN RUBBER CO., LTD., made a profit in 1950 of £129,175 or 53.8%. A final dividend of 20% was proposed making 30% for the year. Net liquid assets at date of balance sheet worked out at \$163,218 or 68 cents per share. All in cost of production was 35.6 cents per lb. on a crop which average 523 lbs. per acre in bearing. Crop was won from 627 acres which included 150 acres of high yielding material which, although constituting less than a quarter of the area, contributed approximately one-third of the crop. The Company has sold forward for 1951 134,400 lbs. at average of 64½ cents per lb.

KUALA SIDIM RUBBER CO. LTD., averaging only 58 cents per lb. for its rubber in 1950 showed a profit of \$354,675 (59.1%) and a dividend of 35% is proposed. Net liquid assets work out at \$353,904=59 cents per share, 258 acres, out of 2,348 mature, are of modern planting. 386 acres have been planted with selected material in the post war period.

SANDYCROFT RUBBER COMPANY LTD. For the year ended 31.1.51 a profit of \$130,931 or 36.4% was shown and a first post war dividend of 10% is recommended. Net liquid assets in balance sheet \$110,473, excluding Rehabilitation Liability, were equivalent to 61.4 cents per share. Crop averaged 527 lbs. per acre and all-in cost was 36 cents per lb. 474 acres were in bearing including 60 acres of modern planting. 297 acres were planted with selected materials between 1947 and 1949.

UNION INSURANCE OF CANTON LTD. Record business was written by this fine old institution in 1950. Total net profit after taxation was £370,775 (£2.14 11d. per share). Profit figure comprises interest and dividends after tax, £269,216, Underwriting profit £306,847 and transfer from contingencies £100,000. The Profit figure was struck after deducting taxation of £258,106 paid

Comet Jet Airliner & B.O.A.C.

The second Comet jet airliner produced by the de Havilland Enterprise was recently handed over to B.O.A.C. at London Airport. It is one of the two aircraft ordered by the Ministry of Supply for development purposes and has been loaned to the Corporation to make it possible—in advance of delivery of the first Comet of B.O.A.C.'s fleet later this year—to explore the field of operation problems which arise in different parts of the world from high speed and altitudes.

Many of these problems already affect to some degree current types of civil aircraft but the considerably greater performance of the Comet has accentuated them and thrown into relief the shortcomings of some overseas routes in their present state of development. The Corporation regards these trials as an essential first step before introduction of the Comet into public service on its routes.

A comprehensive programme has been drawn up to cover the many special subjects, including, for example, air traffic control, operating techniques to enable the best performance to be achieved, meteorological conditions at high altitudes on overseas routes, checking the performance and suitability of communications and radio and radar navigation

aids, and so forth. B.O.A.C. has prepared the programme in collaboration with the Ministry of Civil Aviation and the Ministry of Supply and believes that it will have a far-reaching value extending throughout the whole field of civil aviation.

The foregoing does not constitute the whole of the preparatory work which has to be done, and it is not to be confused with the normal proving flights and training which will follow at a later stage—as with any new type of aeroplane.

The aircraft recently handed over has the single-wheel type of under-carriage which is replaced in the standard Comets on order for B.O.A.C. by four wheel bogies. The interior layout is not standard. This aircraft is not fully furnished or sound-proofed, and it will not operate on passenger services while on loan to the Corporation. Experimental flights will be made with it between the U.K. and Calcutta and a decision about other routes on which it may be flown will depend on the experience thus gained.

Delivery of the 14 Comets on order for B.O.A.C. is expected to begin during the summer and it is hoped that by about end of this year or early in 1952 the type will go into regular commercial service with B.O.A.C.

* * *

THIRTY YEARS OF BRITISH CIVIL AVIATION

At ten minutes past nine on the morning of August 25th, 1919 an aircraft took off from Hounslow Airfield, near London, for Paris. It was a de Havilland Airco 4A powered by one 355 h.p. engine, capable of carrying a payload of 400 lbs. at a cruising speed of 95 m.p.h. On this occasion, it carried one passenger and a mixed cargo, consisting mainly of mail, grouse and Devonshire cream.

Some 2¼ hours later the aircraft landed exactly to schedule at Paris and thus completed the first flight of the first British regular scheduled air transport service. It was also the first regular daily passenger air service in the world—operated by Aircraft Transport and Travel Ltd. Other companies were not slow to enter the field and soon regular air services were in operation be-

tween London and various Continental cities. One of these companies, Handley Page Transport, Ltd., did, in fact, also begin to operate on August 25th.

To the surprise of the armchair critics, these pioneer services from London to the Continent established a high standard of regularity from the outset. Much of this hard-won success was due to pilots—all ex-R.A.F. men—who regularly braved adverse weather, backed only by the primitive ground aids and organisation that then existed. An official report of those early days lists the number of railway stations with their names painted on their roofs to help pilots.

In the first 40,000 miles of flying to Paris, during which thirteen days were officially described as unfit for flying and thirty as unfavourable, the service was interrupted on only seven occasions.

But although the early companies demonstrated their technical skill, they failed to make money. Not only had they to deal with a public that was not air-minded but they had to compete with foreign companies supported by heavy subsidies and able to indulge in fare-cutting. The pilots offered to work without pay but even that could not turn the tide. For a short time in early 1921 British pilots had the morti-

fication of seeing Croydon used exclusively by foreign operators. Government financial help had to be given to restart British air services and to keep them going.

But by 1924 British civil aviation had proved that it had come to stay. On April 1st of that year, four British airline companies then operating across the channel were amalgamated into a single new company, Imperial Airways, Ltd. The new company had, as its name implied, to think imperially. Its primary task, in fact, was to embark on the long and difficult task of building up the great Empire trunk air routes.

Running long-distance air services is not just a matter of flying from one place to another along the route. Airports must be equipped with radio and meteorological facilities. Elaborate arrangements must be made for supplying the petrol and oil to the aircraft and food and shelter to the passengers and crews. Bases must be established for the servicing of aircraft.

In addition to planning and establishing such a route organisation, Imperial Airways, which had inherited a motley fleet of 15 aircraft most of them obsolete, had to think about obtaining some new aircraft.

The first new aircraft built for Imperial Airways was the Armstrong Whitworth "Argosy", a 3-engined biplane (the first 3-engined aircraft ever used in civil flying), with a maximum speed of 110 m.p.h. and a payload of 4,500 lbs.—enough for 20 passengers.

On December 27th, 1926 a service was opened from Cairo through Baghdad to Basra at the head of the Persian Gulf. There were so few landmarks in the sector across the Arabian Desert that pilots followed a gigantic furrow ploughed in the sand by the R.A.F. for nearly a hundred miles. On this service passengers had to be safeguarded as well as transported and accommodated. With potentially hostile tribesmen living around Rutban Wells in Iraq, the station and landing ground there had to be given military protection. A fort reminiscent of a Beau Geste masterpiece was built, complete with battlements and towered strong points. While this was under construction, nightstop passengers lived in a tent compound patrolled by guards.

Further links were added to each end of the chain, and on March 30th, 1929 the first through England—India service left Croydon. The hops were very short by comparison with the long stages now made possible by the greater range of aircraft today.

Gradually the route marched eastward. By July, 1933 the London—Karachi service had been extended to Calcutta; by October to Rangoon; and eleven weeks later to Singapore. On January 18th,

during the year (£48,782 in 1949). Dividend of £1.15 per share (£1.12.6 last year) absorbs only £236,250.

SAPONG RUBBER ESTATES LTD.
Made £56,795 (47.3%) in 1950 after providing for U.K. Profits Tax. Net liquid assets in Balance Sheet £89,602 work out at 14/11d per share. All in cost of production was 11½ per lb. on a crop averaging 502 lbs. per acre. Chairman stated that it unlikely that the Hydro Electric Scheme, which would have submerged part of the Estates, will be proceeded with.

1934 Qantas Empire Airways, Ltd. was formed in Australia to operate the Singapore-Brisbane sector in co-operation with Imperial Airways, and just before Christmas 1934 this new company began a weekly mail service. The first "through-load" of passengers from London to Brisbane left Croydon on April 13th, 1935 and arrived at Brisbane twelve days later. This route of 12,722 miles was the longest single air route in the world.

In 1929 Imperial Airways made a joint survey with the Air Ministry of the second of the main Imperial trunk lines—the route linking Britain with East and South Africa. As far back as 1919 the R.A.F. had begun the tremendous job of pioneering the air route across the mountains, jungles and swamps of Central Africa. In that enormous area a patch of smooth, firm ground suitable for conversion into a landing field was rare. For some years Imperial Airways had an airport constructed in the crater of a volcano.

Most airfields had to be carved by hand with native labour out of thick forests or rocky foothills, or squeezed out of dried mud at the edge of swamps. A runway levelled and dried and stamped hard by hundreds of men working for weeks could be washed away in a night by a downpour of tropical rain. But pioneers are not put off by such difficulties.

The route was established and services opened by stages until in April, 1932 a through passenger air service was opened between London and Cape Town.

So soundly did Imperial Airways build the foundations of air communications in those years between the wars that when war broke out in 1939 it was operating regular services to the Middle East, India, Burma, Siam, Singapore, Hongkong, Australia (in conjunction with Qantas) and to Central, West and South Africa. Experimental services had also been operated across the North Atlantic.

Most of these services were operated with the famous Short "Empire" flying boats, which set new standards both in performance and comfort. They were the first monoplane flying boats to go into regular service and the first flying boats to have all-metal hulls. In 9½ years of continuous operation from 1937 to 1946 they flew nearly 25 million miles and became the best loved aircraft both to passengers and crews in the fleet. In 1939 it was decided to amalgamate Imperial Airways with an independent company called British Airways, Ltd. to create one large Government-owned Corporation, which would be given the backing and resources necessary for the further extension and consolidation of British long-distance air services. The new Corporation was British Overseas Airways Corporation and it officially began operations on April 1st, 1940. In actual fact, British Airways and Imperial Airways operated as one from the outbreak of war.

B.O.A.C. was as much a part of the war machine as its military counterpart, the R.A.F. Communications are even more vital to the life of a nation in war than in peace and the Corporation had an essential part to play. Corporation aircrews often flew their unarmed and completely defenceless aircraft into and through dangerous war areas and in so doing a number of them were killed.

One of the proudest of the Corporation's war-time achievements was the opening and continued operation of a regular all-the-year-round service across the North Atlantic. Up to 1940 the North Atlantic had never been flown in winter and such were the technical obstacles to be overcome that many of the experts said that such an achievement would not be possible for years to come. But B.O.A.C. crews and operational staff organised the famous North Atlantic Return Ferry Service, which operated in both directions winter and summer.

Since the war the links in the pre-war chain of Empire routes, which were broken by hostilities, have been re-forged and many new links have been added. Once again, regular British air services connect London with the Middle East, Pakistan, India, the Far East, Australia and New Zealand, North and South America, the Caribbean and most part of the African Continent. Today B.O.A.C. operates each week some 40 return services over its world-wide routes.

During 1949 B.O.A.C. flew approximately 409,000,000 passenger miles and carried 5,736 tons of mail and cargo. A new fleet of 22 Argonaut class airliners have replaced older aircraft on routes between London and the East, Far East and South America, resulting in a general speeding-up of services and an improvement in the standard of comfort.

Ten new Boeing Stratocruisers, 60-seat double-decked aircraft—the largest in airline service today, are now flying on B.O.A.C.'s routes across the North Atlantic between the U.K. and the United States and Canada.

A new British aircraft, the Handley Page Hermes, of which B.O.A.C. has ordered 25, will soon be flying on the Corporation's African routes.

Moreover, the day is not too far distant when the Corporation will be operating services based on a cruising speed approaching 500 miles an hour—nearly twice the present average for scheduled services—thanks to the de Havilland Comet, the British jet airliner whose performance and development is now being watched with intense interest by the whole world. Fourteen Comets are on order for B.O.A.C. and it is anticipated that the aircraft will be in service on one or more stages of Commonwealth routes by about the end of 1951 or early in 1952.

When this remarkable triumph of the British aircraft industry is in operation Britain will have given yet another lead to the world in aviation progress.

HONGKONG'S POLICE & THE COLONY'S INTERNAL SECURITY

ANNUAL REPORT BY THE COMMISSIONER OF POLICE FOR THE FISCAL
YEAR 1ST APRIL 1949 TO 31ST MARCH 1950

The year under review was one of eventful interest during which it has been calculated that for only one week in the fifty-two were the Police free from a state of extraordinary precautions or operations for one reason or another. The ordinary labours of the Force expanded in all directions under the pressure of increased population and a reasonably satisfactory position was maintained by the high degree of prevention and detection of crime.

The pressure of events under the extraordinary conditions caused by the change of Government in South China also bore heavily on the Force. The Civil War across our borders let loose upon the Colony numbers of unscrupulous men supplied with arms and well skilled in their use. The change of control naturally created many border problems amongst which was the gradual disintegration of co-operation between the Chinese and British police and this in its turn made the apprehension of criminals all the more difficult.

Murders of police on the Border and forays by guerilla gangs had marked the closing days of the preceding year while, during the year under review Hongkong experienced its first political murder and the much publicized sabotage by explosives of 7 out of 76 aircraft grounded at Kai Tak and formerly used on the main air routes in China.

Inspired agitation on an organized basis created several difficult situations with labour, culminating in a strike of tramway workers, a serious incident between workers and the Police and, curiously enough, the settling of the strike through the good offices of the Police.

The Force and the civilian establishment bore with high morale the burden of criminals, agitators, refugees, squatters, immigrants and rumour-mongers, and their zeal, diligence and capacity facilitated the solution of all problems in a manner which went far to justify the often expressed description of Hongkong as an "oasis of law and order."

Although, as usual, the increases in staff failed to overtake the needs created by circumstances, a good deal of real progress was made in the field of special and emergency duties, especially in the modernization, higher training and technical facilities instituted in the C.I.D. The erection of modern police stations and the start on the first block of Rank and File married quarters had an excellent effect upon morale, and the completion of the promotion pattern to professional standards has also had a good effect.

Innovations were the recruiting of the first woman Inspector, the appointment of the first Police Surgeon with expert forensic training and the opening of the Police Laboratory. Other innovations included the mechanization of C.I.D. and traffic statistics, installation of a Single Finger-Print Index, a technically equipped Ballistics Bureau and the latest technical aids, the institution of the breeding and training of Police dogs, the design and procurement of four armoured cars and the completion of a very full system of communications, with a host of minor improvements. Despite the load it had to carry therefore, the Force did not lose and to some extent increased the momentum of its upward progress in professional efficiency.

This assessment is made in no spirit of complacency and there is still much to be done, but it can be stated that under heavy pressure of circumstances, in many problems where the old book of rules had to be thrown away, and where confidence and character meant much, the Force demonstrated that its foundations and spirit were sound and that we have come a long way since August, 1945.

ORGANIZATION.

The Force consists of a Headquarters and two Branches, the Uniformed Branch and the C.I.D. Each branch is controlled by a Deputy Commissioner. The Headquarters comprises the usual sections for administrative purposes in charge of Staff Officers and the following formations come directly under Headquarters command: The Police Training School; The Auxiliary Forces; The Communications Branch; The Financial Office.

The Uniformed Branch.

The Uniformed Branch consists of:—The Hongkong Island District; The Kowloon/New Territories District; The Traffic Branch, and The Marine Police. The Districts are commanded by Assistant Commissioners. Each controls 4 territorial Divisions and the Court prosecutors in his District. The Hongkong District is responsible for the bulk of the licensing done by the Police Force, while the Kowloon/New Territories District includes the land frontier with China.

Each territorial division is normally commanded by a gazetted officer with a Chief Inspector in the major and an Inspector in the minor divisions as O.C. Administration and second in command. Each territorial division is divided into sub-divisions containing one or more police stations or posts in charge of Inspectors, Sub-Inspectors or N.C.O.s according to their importance.

Major police stations have an Inspector as O.C. Station, who is responsible for the smooth working of the station

and its area. In the urban stations, there are at all times, one or more Charge Room Inspectors on duty who perform 8 hour tours in rotation. They are responsible for all Charge Room duties and for the initiation of any immediate action required during their tours of duty. Beats and patrols are supervised by patrol Sub-Inspectors and N.C.O.s.

In addition to the extensive coverage afforded by foot and cycle beats and patrols, there are in each district regular Task Forces, which supplement the work of the men on watch and ward. These are:—(i) Three Emergency Units, one each in Hongkong, Kowloon, and the New Territories, which are specially housed, equipped and trained for rapid turn-out and immediate action. In addition to their emergency task, these units act as armed guards and escorts; (ii) A Water Front Searching Unit which searches vessels for arms and pirates; (iii) A Railway Police Unit which has as its special charge the railway stations, workshops and goods yards; (iv) An Airport Unit which has police control of the airport; (v) Hawker Squads which deal specially with the control and prosecution of the 40,000 hawkers in the Colony; (vi) Village Penetration Patrols which circulate the more remote villages in the rural areas on 3-4 day patrols; (vii) Radio equipped patrol by the Communications Branch which have a dual "crimetraffic" function while they "prowl"; and (viii) C.I.D. Flying Squads which operate aggressively in crime prevention.

In this Force, it is fundamental that the man on beat and patrol is the backbone of the Police Force. He must be available in sufficient strength to induce public confidence that he is at hand, and he himself must be relieved of all duties of a regular or special nature likely to distract his presence or attention from his primary duty of watch and ward. But that in itself is insufficient. Both he and the public must be assured that further aid can be summoned rapidly and adequately to deal with any problem that may arise. This is the function of the Task Forces in their various spheres of action and their use has increased the confidence and efficiency of the constable and detective as well as stimulating assistance from the public which otherwise would not even be considered, far less attempted, in a place such as Hongkong. In a surprising number of cases during the year members of the public have themselves acted with presence of mind, courage, and determination in the pursuit and capture of criminals and this has been due to their confidence that policemen are not far away and will take action.

The CID

The Criminal Investigation Department comprises the Detective Branch, wholly concerned with the detection of crime and special measures for its prevention, and the Special Branch, which is concerned with the prevention and detection of special activities subversive to the security of the Colony.

The Detective Branch:—The Detective Branch is organized into a Headquarters consisting of the administration, under the Director of Criminal Investigation, and Headquarters Units such as the Identification Bureau, Criminal Records Office, Deportation Office, Homicide Squad, Commercial Crime Squad, Triad Societies and Criminal Gangs Section and the Anti-Corruption Squad. In each of the two Police Districts there are Assistant Directors who work closely with the Commanding Officer of the District. The Uniformed Branch is responsible for the routine prevention of crime, but the Assistant Director's duty is to advise the Commanding Officer on the incidence of crime and methods to obtain the maximum result from the efforts of the Uniformed Branch and to concert with the Commanding Officer any special measures required by both Branches. In each territorial division in a District, there is a divisional detective force under a Divisional Detective Inspector who has a dual responsibility to his Assistant Director and to the Divisional Superintendent of his division, to whom he reports daily in the divisional state of crime and measures required locally, and through whom he submits his final reports to his Assistant Director.

The Special Branch:—The Special Branch is controlled centrally by a Director and two Assistant Directors and works in close co-operation with the Detective and Uniformed Branches. It is organized into an administrative H.Q. and Sections which cover the different phases of its activities, each in charge of an Inspector. The Immigration Department and the Registry of Aliens are also controlled by the Director, Special Branch. All officers and men employed in the C.I.D. are recruited from the Uniformed Branch and the C.I.D. has first call on the talent available from time to time. Personnel can be and are changed frequently from one Branch to another and to and from the Uniformed Branch. All non-gazetted personnel draw Detective and Plain Clothes Allowances while employed in the C.I.D. for one month or more.

Headquarters Units

The Police Training School:—The School is commanded by a Commandant, with a Chief Inspector as Chief School Instructor and second-in-command. It is divided into two sides, the Drill and Weapon Training side under a Chief Drill Instructor, and an Instructional side dealing with the classroom teaching of law, police duties, the English language, hygiene and so on. The staff consists of both expatriate and local Sub-Inspectors each teaching in his own language and a number of qualified N.C.O.s. The system is, by necessity, on a basis of "cramming" with small classes and intensive visual and oral tuition.

The Auxiliaries:—The Police Reserve is organized into a H.Q. and four companies, one of which is the Training Company. When mobilized, the personnel passes into regular formations. The Special Constabulary is organized to pass straight into regular formation as required.

STRENGTH AND DISTRIBUTION

The authorized strength rose from 3,051 to 3,899. The actual strength on 31.3.50 was 3,721, showing a deficiency of 178, comprising vacancies for 2 gazetted officers, 17 expatriate inspectors and 161 rank and file.

In 1945, the Force was on its 1941 establishment of approximately 2,000. It rose to 2,637 in 1946-47, to 3,051 in 1948-49, and to 3,899 in the year under review. Approval has been given for a further increase to 4,299, effective on 1st April, 1950, which means the force has doubled since 1945. These spaced increases have been part of a deliberate policy of rebuilding with seeded men properly trained and becoming gradually seasoned. The temptation to recruit in bulk for the sake of numbers had to be resisted and this involved a certain amount of risk from time to time; but the course is now plain sailing and the further increases, which are likely, will rest upon a body seasoned by service as scheduled hereunder:—

	Length of Service in Years			
	20 and over	10-20	3-10	Under 3
Gazetted Officers	7	17	7	8
Expat. Inspectors	30	81	62	71
Non-Expat. Inspectors 1	30	64	63	
Cantonese	69	293	841	1,440
Northern Chinese	34	76	45	330
Indians	26	63	32	—
Portuguese	—	—	20	19

The proportions are building up to the blend of experience and youth required in an active force, and the standard of the force as a whole has been maintained by the elimination of unsatisfactory elements at all stages.

The Distribution of the Force is by fixed component establishments sufficiently flexible to enable the rapid assembly of manpower for operations without dislocation of normal duties. Generally, the Portuguese, the Indians and about half the Northern Chinese are employed in specialist duties, chiefly in the task forces, while the other duties of watch and ward are performed by Cantonese, among whom are 350 Hakkas, employed in the frontier area. The actual strength of contingents on 31.3.50 was as follows: Gazetted Officers 41, Expatriate Inspectors 244, Non-expat. Inspectors 148, Cantonese R. & F. 2,643, Northern Chinese 485, Indians 121, Portuguese 39.

RECRUITING

Recruiting of upper ranks was again very heavy, comprising 10 Cadet gazetted officers, 61 expatriate and 35 non-expatriate sub-inspectors, and the first woman sub-inspector. This consistently overloaded the accommodation provided for these grades and absorbed accommodation normally available for the rank and file, cutting down the intake of recruit constables. It was, however, possible, with difficulty, to pass 743 rank and file recruits and refresher N.C.O.s through the School during the year. There was again no difficulty in obtaining recruits of a good standard and the rank and file intake attained a new high level of candidates possessing both intelligence and physique. There is no doubt that the reputation of the Force is attracting the right type.

CASUALTIES

Despite the increase in the establishment, casualties were only 325 against 340 in 1948/49, thus continuing the consistent reduction under this head which commenced in 1947/48. The figure is divided as follows:—

	Ex-patriate Inspectors	Non-expatriate Inspectors	N.C.O.s & P.C.s	Total
Deaths	4	—	0	13
Desertions	—	—	12	12
Dismissals	3	1	125	129
Perished	25	—	18	43
Other discharges	23	8	97	128
	55	9	241	325

There were 9 deaths from Tuberculosis and 5 officers, 2 Europeans and 3 Chinese, were murdered on duty.

DISCIPLINE

The standard of discipline is high. There is no mercy shown in respect of offences reflecting corruption and no attempt to handle departmentally cases which ought to go before a court. During the year there were 6 cases with an unproved background suggesting corruption involving 27 members of the Force of whom 1 was deported, 5 absconded and 21 were dismissed. Twelve members of the Force were prosecuted in court for various offences. As the Force has become more seasoned, the offences per head have dropped from 4.75 per head in 1946/47; 1.08 per head in 1947/48; 1 per head in 1948/49; to .7 per head during the year under review. The actual number of offences was 2,663 compared with 3,721 in 1948/49 although the actual strength of the Force increased by some 700 men. The bulk of the offences were again the largely minor and routine offences of Neglect or Disobedience of Orders. Neglect of Duty dropped from 719 to 581 and Absence from Duty dropped from 769 to 545. There is no doubt that this satisfactory state is a reflection of a better spirit as indicated by the relatively low figures for Neglect of Duty and Absence. The grant of Good Conduct Allowances has been of much value and 959 such allowances were granted during the year to men clear for three years of major default.

TRAINING AND EDUCATION

Despite difficulties, some progress was made with both training and education. The system of courses for expatriate officers on furlough was continued, but it was not possible to commence Staff College instruction locally because of the shortage of personnel. Nevertheless, the return from the U.K. of the medicolegally trained Dr. Pang, and the establishment of the Police Laboratory, coincident with a modern reorganization of criminal records, enabled higher grade instruction in up-to-date methods over a wider field. A good deal was also accomplished in stream-lining the School methods of tuition.

Education has chiefly consisted of tuition in the English language and the provision of facilities in barracks for the showing of education films. In addition to the Basic English taught at the School,

there is now a follow-up of classes in commands and although much of it is sketchy indeed, the Force has moved some distance from the position 2 years ago when less than 100 rank and file sported the red tab on the shoulder which denoted a knowledge of English.

The School courses remained at a nominal 6 months course for sub-inspectors, and 3 months course for recruit constables, plus an extra 2 months in seamanship and signalling for Marine recruits. The standard rank and file course consisted of:— (i) Criminal and evidence, (ii) Colonial Ordinances, (iii) Police Regulations, (iv) First Aid, (v) Unarmed Combat, (vi) Drill, (vii) Weapon training; which is revolver and gas grenade use by all ranks; rifle, greener gun and automatic weapon use by selected groups.

It has constantly been the target that this 3 months R. and F. course should be increased to 6 months to produce a more confident man and to reduce the amount of post-school instruction which falls upon divisional officers. Steady increases in establishment and the small amount of school accommodation has prevented the attainment of the objective.

An innovation was the institution of advanced field training in the Fan Gardens Reinforcement Camp in the New Territories, and it was possible, also, to institute at the Camp the Police Kennels under a qualified dogmaster for the breeding and training of Police dogs and tuition in their handling. Alsatians are trained for patrol and protection in the rural areas, as well as to track within their limits.

Professional examinations in law and the Chinese language were instituted for the Inspectorate in 1948/49 and continued during the year to a good standard. Similar examinations were instituted for Cadets in 1949/50 and the pattern extended to the rank and file by revision of the system of tests for Promotion Boards. These consist of senior officers and the creation of a Promotion Pool, the qualifications for which are an above average record, followed by selection as a candidate by a Promotion Board. The selected candidates are returned to the School in small batches for a Promotion Course during which they are closely examined. If they pass, they go into the Promotion Pool in order of seniority and are available for immediate promotion as vacancies arise, provided they are clear of default. Unsuccessful candidates are not finally passed over but require fresh recommendations before they are further considered.

The filling of the gaps in the standards of professional ability required from all ranks of the Force completes the system and finally divorces the Force from the old rule of thumb ideas. It gives the police officer his proper professional standing and it gives the public a guarantee that it is obtaining a service based upon well-defined standards of proficiency.

BUILDINGS

Police Stations. Before the war, the Force operated from 34 police stations and 6 police posts. Only 21 police stations and none of the posts were available in 1945 and requisitioned and rented premises

had to be occupied on a temporary basis both expensive and inefficient. Good progress was made during the year with the replacement programme. Replacement stations were opened at Shauiwan, Bay View, and Hung Hom which are a credit to the Public Works Department. All three stations are sub-divisional stations on a standard plan giving station accommodation for:— 54 constables, 9 N.C.O.s, 6 station coolies, 6 motor drivers, 3 reserve detectives, and 1 female searcher. The station also provides for 3 single sub-inspectors, while a detached, adjacent block provide flat accommodation for 3 married inspectors. Close attention has been given by the planners to the points which add to efficiency, such as the provision of ample light and air, drying rooms, laundries and a hot water supply. A pleasant recreation room, a muster room and sufficient dormitory space to move freely are items which the Force has never had and the effect upon morale of these new stations is excellent.

At the end of the year a replacement divisional station was being built at Kowloon City. When completed in October, 1950, this station will be a model of what a modern station should be, with public waiting rooms, segregated cell accommodation and other amenities. In addition, 5 replacement stations were being built at Sai Kung, Shatin, Tsun Wan, Castle Peak and Sha Tau Kok. Unfortunately, much of the blockhouse had to enter the design, but they are otherwise on plans providing for the aids to efficiency and morale instituted in the other buildings.

At the end of the year the Force was operating from 35 police stations.

Barracks and Quarters.—The single men's accommodation was provided on a poor scale for a Force half the size and the provision of Fan Gardens Camp and increased accommodation in the replacement stations, and the additional posts, did not go far to meet the increased enlisted men was not improved and the congestion of the Colony bore heavily on them, the usual charge for a bed space (not a room) being \$60 p.m. for a local man and \$80 p.m. for an expatriate, i.e. non-locally born, representing about 1/3 of salary. It was, therefore, of much interest when a start was made on the Queen's College site which will provide 165 married units when completed. Still more encouraging was the allocation of a site in Canton Road for which plans have been drawn for the erection of 385 Units. The completion of these will remove 550 married men and free 550 places in the single men's barracks. Further plans for units elsewhere are under consideration. The housing of the Inspectorate has been reasonably satisfactory, but there is still some progress to be made in housing the local Inspectorate. Many of these officers simply cannot afford decent accommodation and it is bad for them and their work, as well as inconsistent with attempts to improve their status, that this position should be. However, the completion of the replacement stations will help the situation to some extent.

Other Buildings.—The original Police Headquarters accommodation at Central Police Station was inadequate before the war and, after hostilities, additional temporary accommodation was found in the Oriental Building. This has proved inadequate to provide for the additional duties of the Force. A survey during the year revealed that all Headquarters Units were inadequate in space and that there was not only a mounting loss of efficiency but serious public inconvenience, especially in the Immigration and Traffic Branches.

The administrative drawback in having the Stores, Armoury, Traffic, Financial and Communications section at Central while the Headquarter and remaining sub-departments were at Oriental Building, the absence of any space for the Special Constabulary, and the obvious need for the Hongkong Emergency Unit to be more suitably situated for quick action, led to the acquisition of a site known as Arsenal Street Yard, which is admirably situated to meet all requirements. Plans are being prepared for the erection of proper Headquarters which the Hongkong Police have never had.

EQUIPMENT

Books and Printed Matter.—There was an adequate supply of books of record and forms, but there is still a back-log of printing to be done in connection with Orders and Manuals now in cyclostyled form.

Clothing and Accountments.—The Force was reasonably well supplied. Kit was very well kept and a high standard of turn-out maintained.

Weapons.—The Force is supplied with the following weapons:—(i) Batons worn in a frog by the R. and F.; (ii) Revolvers, .380 Webley, worn and fired as the standard weapon by all ranks, except in some special circumstances when (iii) Automatic pistols, .450 colt, are issued; (iv) Rifles, .303, fired by all officers and inspectors, and by the Emergency Units, Marine Division, Northern Chinese and the New Territories Division; issued only in an emergency, but on charge in all stations; (v) Greener or riot guns, as for item (iv); (vi) Sten guns fired by gazetted officers, inspectors, all N.C.O.s and sections of R. and F.; (vii) Bren guns, fired by gazetted officers, inspectors and N.C.O.s; (viii) Owen guns, as for (vii); (ix) 2" mortars, fired by inspectors; (x) Grenades, Mills type, as for (ix); (xi) Grenades, C.M. and D.M., used by all ranks; (xii) Projectile and jet projected C.M. and D.M. from smoke guns; (xiii) Oerlikon, 3 pounders in cruising launches on antipiracy patrols only.

The Police Reserve use batons and revolvers. The Special Constabulary is trained up to and including all automatic weapons. During the year, 91 additional Sten guns were acquired and an improved supply of smoke grenades was made available. On the whole, the Force, including auxiliaries, had a sufficient supply of weapons and ammunition.

COMMUNICATIONS.

Land Transport:—Land transport comprised:—4 armoured cars, 6 Land Rovers, 27 Load/passenger vehicles, 18 passenger vehicles, 3 water carriers, 1 ambulance, 29 solo motor cycles, 21 combination motor cycles, 151 pedal cycles.

The armoured cars are new to Hongkong and were built by the Kowloon-Canton Railway workshops on part worn 3 ton chassis, with armoured plate found in a shipyard, and to our own design. It is built as a fighting patrol vehicle which is fast and manoeuvrable. Fire power is by automatic weapon from a revolving turret, while ports provide fire from stens, gas guns and small arms. The entire underpart is armoured against mines and the car can be electrified so that it cannot be pushed over or man-handled. Copies of drawings have been supplied on request to the Crown Agents for the Colonies, the Army in Malaya, and the Government of Macau.

The transport was in heavy use during the year and the question of repairs has become a problem. It was not uncommon to have as many as 8 vehicles in workshops at one time.

Sea Transport:—The sea transport was:—10 small tugs for harbour work; 2 Empire tugs, and 2 motor fishing vessels for anti-piracy patrol and the policing of islands and outlying villages; 2 60-foot Air Speed Rescue Craft, and 1 40-foot Air Speed Rescue Craft for emergencies, operations and high speed patrols. 5 motor boats for local sea patrols and penetration to otherwise inaccessible villages.

Only 1 additional craft was supplied during the year, and that was a small 4-seater motor boat for immigration work. The number of craft available was insufficient for the duties implicit in control of 600 square miles of water, 500 miles of deeply indented coastline, 24 million tons of sea-going shipping, 17,000 licenced native craft of all kinds, and 300 power-propelled small craft, with a state of civil war prevailing for the greater part of the year on the mainland and islands surrounding the Colony. Grateful thanks are extended for the aid given by the Royal Navy as required from time to time for operational purposes. Even with this aid it has been a struggle to maintain a possible, far less a satisfactory, coverage of the area and duties with the craft available.

Air:—Reconnaissance has been available as required and thanks are due both to the R.A.F. and the Army for flying reconnaissances of indispensable value at different times during the year.

Telephones:—Some progress was made with the now 3-year-old plan for an up-to-date police telephone system and it has been agreed to obtain it in two stages, the first being the private branch exchanges and the second the street pillar system.

Wireless Telephony and Telegraphy:—The Police Force installed, maintained and repaired its own radio, using its own workshop staff. Since early 1947 the Force while awaiting new equipment, had been using R/T sets hired from the Royal Navy. By June 1949, the standard

equipment had arrived from the United Kingdom, and the G.E.C. expert was flown out to supervise installation and give maintenance instruction. His stay of 3 months laid a sound technical base for good service during the year.

The Force operates a main network from 2—100-watt transmitters, one on Victoria Peak and one in the New Territories. Each can cover the entire Colony but, for load distribution, each covers a region for normal working, giving the sets 2-channel working. There are 79 standard V.H.F. sets, all interchangeable.

The main network has had excessive usage because of weaknesses in the telephone system and the load of operational duties during the year. It has given good service but the two years' supply of spares is likely to be exhausted in a much shorter time than was originally expected.

An invaluable, if less used, network is provided for static inter-command and divisional communication; this is independent of the main network. There are 26 S.C.R. 528 sets on this network which is "push button" and relieves the load on the main network.

The wireless telegraphy network continued to operate from a Control Room in the Marine Police H.Q. to the islands of Lantau and Cheung Chau as well as the long distance anti-piracy patrol craft.

The Services continued to be on the R/T network and the Royal Navy worked W/T with the Marine Police for a good part of the year on combined patrols.

The wireless communications system is complete with emergency generators and charging boards and, for emergency purposes, the Police are independent alike of telephones or power failure. By its triple system of main R/T, push button R/T, and its W/T network it can maintain full communication with the Services and provide a limited service for Government purposes if required.

Auxiliary Communications:—Both flag and Aldis lamps are used for operational signals to supplement radio communication, and stations have a system of emergency communications by flare and rocket if other communications fail. Patrols in dangerous territory carry either radio "walkie talkies," flares, or Verey signal pistols. Both vehicles and vessels carry loud-hailer equipment used for traffic and civilian control, but capable of use as a communications medium in certain circumstances either in code or en clair.

STATE OF CRIME.

The trend of events in China was felt in Hongkong more forcibly than ever when, with the change of Government, a number of men skilled in the use of arms and many of them desperate characters made their way to the Colony. The influx of half a million people from China, raising the population to over 2½ millions, bore with it many wealthy refugees and included criminal elements who preyed upon them. In a community such as the United Kingdom and most other Colonies the population is largely if not wholly stabilized and police work

can be done using to a great extent the process of elimination. Such is not the case in Hongkong and the prevention and detection of crime is an arduous task calling for great keenness and devotion to duty. Success was commensurate with effort and reflects credit on all concerned, including those members of the public who in some cases risked life and injury to arrest evildoers or supply assistance to the Police.

The total number of reports of all kinds recorded by the Police was 153,608 compared with 141,745 last year, 89,032 in 1947/48, and 48,537 in 1946/47. The figure in 1938, an abnormal year, was 60,943. Of the 1949/50 total, no fewer than 39,658 disclosed no offence after investigation leaving 113,950 recorded offences, of which 9,906 were Serious Reports as against 10,009 last year, and 104,044 were Miscellaneous Offences as against 103,596 for the same period.

The holding down of serious crime to approximately last year's figures maintains the steady reduction in crime since 1946 (below pre-war figures), and considering the difficulties of the year reflects the tremendous effort in preventive work that had to be made. The detection in serious reports was worthy of the preventive effort, as the number of reports prosecuted and cleared up rose from 4,106 to 4,359 raising the rate of detection from 41% to 43.9% of serious reports, which is the highest since the war.

Miscellaneous Offences chiefly indicate the amount of police effort required to obtain reasonable conditions of good order. Hawking absorbed a disproportionate amount of police time and effort with 47,689 offences, and traffic offences did the same with 18,053 offences.

Registrable convictions were nearly double those of last year. More than half were first offenders, their number being more than half as great as last year; but previously convicted persons rose to 2½ times that of last year and returned banishes to 1½ times. This illustrates Hongkong's problem of crime and punishment. It also underlines the magnitude and difficulty of the Police problem of prevention and detection of crime and the good results achieved in this field.

Serious Crime:—Reports were 9,906 against 10,009 last year, 13,655 in 1948/49 and 13,754 in 1946/47. It is of interest to compare these with pre-war years:—1931-5 5,000 to 6,500; 1936 9,000; 1937 12,500; 1938 11,500; 1939 11,500.

Taking 1931-36 as normal years, the population has risen from 800,000 to approximately 2,317,000, or trebled, while Serious Crime has only doubled and under conditions to which the more settled years offer no parallel.

Juvenile offenders again dropped from 625 cases to 507 cases, being a reduction of 90 for males and 28 for females.

Reports of robberies, housebreaking, larcenies and larcenies from the person were about the same, while there was a noteworthy reduction of burglaries by a third, Larcenies from dwellings, however, increased by a third.

Offences Against the Person:—There were 19 causes of murder, 7 prosecuted, as against 23 causes and 5 prosecuted in

1948/49. Easy escape into China again saved those not arrested. The motives were:—Gain 14, Revenge 4 (including 1 political), Unknown 1. Attempted murders also dropped from 13 cases, no prosecutions, last year, to 2 cases and 1 prosecution this year. In one case the motive was gain and in the other homicidal insanity. Reports of infanticide dropped from 4 cases, 2 prosecutions, in 1948/49 to one suspected case not properly established. Arson cases rose from 3, no prosecutions, to 5 of which 2 were prosecuted. Acid-throwing dropped from 30 cases, 3 prosecuted, to 4 cases, 2 prosecuted.

Offences Against Property:—Armed Robberies dropped from 192 to 182 but simple robberies increased from 28 to 44. Attempts to rob also increased from 6 to 10. Burglaries dropped from 369 to 251 but housebreakings rose from 289 to 292. Larcenies dropped from 4,577 to 4,382. There was an improvement in detection, from 29.5% to 37.3%, in robberies of all kinds, from 14.2% to 17.8% in housebreakings, and from 32.7% to 36.6% in the case of larcenies; and only in the detection of burglaries did the percentage drop from 23% to 20.7%.

The termination of such police liaison as existed with the Kwangtung Police gave a fillip to the non-preventable offences of embezzlement, larceny as a servant, and false pretences; and the casual business practice obtaining widely among the Chinese in Hongkong made these crimes comparatively simple. In consequence, stated losses by embezzlement and theft as a servant rose from \$512,432 to \$2,392,101, and losses from false pretences from \$98,505 to \$149,123. This increase of \$1,925,286 under these heads sent the total stated losses up to a new high record of \$6,170,119 as against \$3,950,186 last year, leaving a net increase of \$285,647 covering other offences. Recoveries rose from \$282,268 to \$477,180.

Offences in Dwellings:—In a grossly congested population of over 2½ millions, of whom thousands who are neither completely without property nor penniless live where they can in common room accommodation, flimsy shacks and such shelter as they can obtain in out-of-the-way parts of the urban area, 251 burglaries, 292 other breakings, and 934 larcenies from dwellings represent good police protection in the face of the temptations offered and the number of people seeking to avail themselves of any opportunity for gain. Over last year, the only increase was in larcenies which rose from 719 to 934, many due to carelessness. Breakings by day were about the same, 292 as against 289 cases, but burglaries by night dropped from 369 to 251 cases.

The significance of this is that many new comers were out during the day seeking contacts or employment and leaving their property vulnerable to larceny either simple or by house breaking. In cases of the latter, the Police have a chance of catching the offender and, despite the prevailing conditions, prosecuted cases this year rose from 41 to 52. By night there is not the same incidence of this type of offence since the owners are at home with their property and, with the owner's co-operation, the risk of police intervention is much greater.

The value of the property lost by larceny also rose, but disproportionately, from \$22,415 to \$426,370 indicating that not all squatters and refugees are poor people. Again, significantly, property lost by burglaries, despite the drop in cases, rose from \$128,825 to \$134,751.

Larceny from the Person:—This class of crime is common to all cities and is especially attractive in Hongkong where pickings are excellent and means of escape in the congestion of main thoroughfares, plus routes to and from China, offer unusual temptations to the enterprising. It can only be suppressed by adequate ground coverage by both uniformed men and detectives alert and active, helped by co-operation from the public. A constant war was waged with good results, 1,327 cases with 591 or 44% prosecuted as against 1,314 cases last year, 516 of which were prosecuted. With real public co-operation instead of general apathy more police time could be saved and better use made of the substantial amount of manpower required to obtain the efficiency in prevention and detection which was necessary to produce these results under present conditions.

Extortion and Threats:—The 1949/50 position was held with 147 cases, 56 prosecutions, as against 118 cases with 51 prosecutions in 1948/49. In the majority of cases, the demands purported to come from one or other of the main political parties in China. The most serious case was the menacing of a group of small restaurants and tea-shops during July and August 1949. The gang responsible was arrested before any damage was done. Threats unaccompanied by demands for money dropped from 123 to 31, being the usual assortment from cranks, jilted lovers and practical jokers. Three prosecutions were taken.

Counterfeit Currency:—The year was notable for two successful coups against forgers. In the first, the Canton Police, acting on Hongkong information, successfully broke up a well-organized and protected gang forging Government and H.K. Bank \$1 and 10 cent notes, making a complete haul of forgers, 2 presses, a paper-cutting machine, 68 plates, forged notes with a face value of \$162,000 and other paraphernalia. The second also had an international flavour, and concerned counterfeiting in Hongkong of U.S. Reserve Bank \$100 and \$50 notes and U.K. £100, £50 and £10 sterling notes. The arrest and conviction of this international gang was accompanied by the seizure of 2 presses, cameras, dyes, plates and other paraphernalia. Forged notes with a face value of U.S. \$638,950 were seized, which was greater than the entire seizures in the U.S.A. in 1948. It is believed that sterling notes with a face value of nearly £500,000 were burned by a member of the gang whose location and arrest took place later than the others. This gang had a long run because its excellent forgeries were issued in countries adjacent to but never in the place of manufacture, Hongkong, and no member of the gang had ever been arrested for either forgery or uttering. The success with forgers was supplemented by improved detection of possession and uttering cases. There were 76 cases as against 30 in 1948/49, of which

58 disclosed no guilty knowledge, 15 of the remaining 18 cases being prosecuted. Last year there were only 2 prosecutions in the 30 cases reported.

Secret Societies and Criminal Gangs:—The activities of Triad and other criminal secret societies continued to be kept well in hand. There were 15 successful prosecutions and 49 persons were deported for this form of activity. The influx of population from North China and Shanghai brought with it formations of the notorious "Green Pang" Triad and the influx from Kwangtung, and especially Canton added to the local strength of the South China and Hongkong "Red Pang" Triads. These formidable groups were none too friendly before the collapse of the Nationalist Government, but have been compelled by Police vigilance to behave themselves. Only one society gang fight occurred of any note when theatre-ticket black market gangs fought, resulting in the death of one man.

Steady pressure and action over the past 3 years liquidated most of the known criminal gangs which formerly operated in British territory adjacent to China, but the gangs on the Chinese side made frequent incursions across the frontier in the early part of 1949. On one occasion a police patrol was ambushed by night and a constable killed; on another occasion, a small patrol post was overrun and a constable killed. Acting on Hongkong information in practically the last example of border co-operation, Nationalist troops completely liquidated the gang responsible. A notorious leader of another bandit gang of long standing was shot dead by the Police in British territory and his band dispersed.

Weapon Cases:—There was no real improvement under this head, and, during the change of Government in China, hand-weapons could be purchased on the Chinese side of the frontier for as little as \$5. In addition, the Nationalists issued large numbers of arms to so-called guerillas whom they otherwise left destitute to live on the country. Chased out of China either by aggrieved peasants or by the advancing Peking forces many sought their fortune in Hongkong and were it not for excellent preventive work would have caused many more incidents of violent crime. A fair estimate is that each conviction for possession of arms prevented 3 crimes connected with the use of them. There were 171 convictions for possession of arms as against 189 cases last year. There was an increase of from 57 to 89 arms seized, abandoned (usually near scenes of crime), or discarded by criminals. The total amount of arms and ammunition seized by the Police from all sources was:—(a) weapons:—300 revolvers and pistols, 142 rifles, 24 shotguns, 3,278 swords, bayonets, knives, etc., 133 machine guns, cannons, etc. (b) ammunition:—32,108 rounds of various types, (c) explosives:—96 ½ tins T.N.T., 527 sticks Gelignite, 848 detonators, 72½ lbs. dynamite, 1 lb. of yellow powder.

Miscellaneous Offences:—Under this head fall all admitted reports not covered under Serious Crime, but the figures generally reflect the amount of police action necessary to obtain reasonable conditions. As will be seen from the major classification, common assaults of

various kinds went up from 2,208 to 5,110 while hawking offences were still high although they dropped from 51,628 to 47,689. Traffic offences were about the same and so were offences in connection with narcotics, but nuisances doubled.

The comparative break-down under major heads is as follows:—

	1948/49	1949/50
Assaults, common	3,208	5,310
Controls, food etc.	1,253	914
Dangerous Goods	153	77
Dutiable goods	1,143	1,280
Expulsion, breach of Orders	1,062	1,211
Forestry	108	119
Gambling	432	476
Hawking	51,628	47,689
Narcotics	2,890	2,270
Nuisances	3,898	7,914
Prostitution	277	482
Stowaways	42	12
Traffic Offences	18,692	18,053
Vagrancy	17	12
Women and girls	505	74
Other minor offences	15,082	15,513

Gambling Suppression:—There was a slight increase in prosecution for keeping gaming houses, otherwise the situation was about the same as in 1948/49, viz:—

	1948/49	1949/50
Keeping a Gaming House	107	124
Playing in a Gaming House	518	814
Gaming in public	639	775
Lotteries	45	49
Betting cases	3	—

Public Morals:—A steady pressure was maintained against living on the immoral earnings of prostitutes, street walking and the maintaining of brothels. Most of the prostitutes now practising use single rooms in low class hotels. The increase in the garrison has not attracted any more prostitutes. An undesirable development has been the growth of unlicensed "massage halls" which are nothing but brothels. No fewer than 55 of these places were prosecuted during the year.

Corruption:—It is not generally appreciated that the law now provides for action against all kinds of corruption, not only amongst officials but in other walks of life as well. The general inclination to consider that only officials can be corrupt has hitherto prevented the Anti-Corruption Branch from giving its proper value as a public service. There were 24 enquiries of greater or lesser magnitude into the activities of Government Departments, involving 258 persons, government servants and outsiders, involved in alleged official corruption. The Police Force was ahead with 6 enquiries involving 27 police officers. This does not mean that the Police Force is corrupt; it means that corruption is constantly sought out and ruthlessly punished when discovered.

Deportation:—Compulsory removals from the Colony were 6,800 as against 7,107 last year. Deportations rose from 2,130 to 3,754 but expulsions fell from 3,977 to 3,046. Re-deportations from other British possessions fell from the high figure of 546 last year to 280 which more resembles the figure of 243 in 1947/48. In addition, 3,297 persons voluntarily gave themselves up for repatriation to China. These people were not deported but returned to their homes, the cost being borne by the Hong Kong Government.

Missing Persens:—Reports of missing persons decreased from 1,514 to 1,331 of whom 966 were traced. A feature of these reports was the number of adolescents who left for China to join organizations of the new Government.

Pawnshops and Goldsmiths:—Indicative of prosperity, the number of licensed pawnshops dropped again from 58 to 53, being less than half the number licensed in 1947/48. Control of pawnshops was tightened up still further to good effect, but there is still no control over the receiving of stolen property by goldsmiths except the daily circular of stolen property which throws an onus on them.

Identification Bureau:—With the creation of the Police Laboratory under a qualified expert as part of the Bureau's organization, and a general expansion in all fields, especially single finger-prints and ballistics, the Bureau's foundations are now well laid and further progress has been made less difficult. The Bureau is very fully equipped with the most modern photographic equipment, including still and cinecameras, lenses of all kinds, including infra-red photography, microscopic and telescopic lenses, and is fitted with ultra-violet apparatus, photo-stats and a micro-recorder. The standard of work is professional and the expense has been well worth while in the greater efficiency of detection and prosecution and in the saving of time.

During the year a fully equipped Ballistics Section and a Battley Single Finger-Print System were inaugurated, the latter amounting to a collection of 2,380 prints at the end of the year and proving its value. Also, during the year, a beginning was made with an index of comparison specimens of Chinese handwriting used in cases of menacing letters. The handwriting is analysed and classified by type and characteristics and then indexed for future reference. It is believed to be the only index of its kind.

Forensic Laboratory:—There has never been a properly trained Police medico-legal expert in the Eastern Colonies and Dr. Pang Teng Cheung was sent for a year's study in the United Kingdom under Professor Sir Sydney Smith. In the course of his studies he visited the Police Laboratories established by the Home Office. He commenced by conditioning the Force in the facilities available and opened the laboratory in December, 1949, with a Portuguese constable as assistant in makeshift premises at Police H.Q. However, the laboratory is well equipped, except for odd pieces of apparatus still to come and it is difficult to imagine how the Force formerly managed to do without it.

In the 3 months from December, 1949 to March, 1950, 334 post mortems were done disclosing 84 medico-legal cases. The Surgeon attended 49 scenes of crimes of fatal accidents and many examinations of injured persons from a medico-legal aspect have been made.

PECULIAR PROBLEMS

Hawkers:—In 1947/48 there were 54,032 cases of hawkers disobeying bye-laws, hawking without a licence etc. Last year there were 50,960 cases, and this year despite the influx of half a million people, there were 47,689. This latter figure was

the absolute minimum which was required to maintain control and any relaxation was immediately reflected by a deterioration in conditions.

Medicants and Destitutes:—For the first time, the Police repatriated without prosecution persons who voluntarily surrendered themselves and 3,206 were returned to their homes in this way. In addition, 2,638 were arrested and subsequently repatriated, being a reduction from 3,206 last year. A special problem was posed by the influx of Nationalist soldiers, many wounded, who found their way into the Colony, since neither the new Chinese Government nor the Nationalists in Formosa would take care of them. After strenuous efforts, some 3,000 were taken to Formosa, but some 6,000 are still in a camp in Hongkong. All they want to do is to go home, most of them having been conscripts.

Squatters:—Naturally this problem had no chance of improvement, far less solution, and for reasons of health it was necessary to continue operations for wholesale removal of squatters from certain areas. In all, some 16 sites were cleared and 32,000 squatters removed without incident. These figures compare with 12 sites and 20,000 squatters in 1948/49.

THE SPECIAL BRANCH

The Branch was expanded during the year to meet increased heavy and exacting commitments arising from the effects of events in China upon the Colony, and met all demands. In addition to its normal functions in connection with subversive activity, it dealt with a mass of security checks for Service and Defence purposes, throwing a very heavy burden on the machine. It also became responsible for the operation of the Registration of Societies Ordinance, dealing with 839 applications for registration of which 660 were registered, 60 were exempted from registration and 141 refused registration, with 28 pending. This measure met with a good deal of inspired clamour from Leftist elements, but elsewhere with a realistic appreciation of the unfortunate necessity for such a measure.

Immigration:—This Department which is controlled by the Special Branch, also carried a heavy and difficult burden. The introduction of controlled immigration of Chinese in 1949/50 was dictated by sheer population saturation of the Colony and apart from a short-lived series of protests inspired by sentimental, commercial or political motives, it was accepted by the general public as an inevitable outcome of overcrowding. As already stated, the population rose by half a million, but the movements to and from the Colony are estimated at about 4½ millions or a double turnover of population figures equal to one journey out and in for every single inhabitant.

At the beginning of the year, Chinese from the mainland of China and Macau did not require documents. From elsewhere documents were required, but no visas. Control was first tightened up to the extent of requiring arrivals to have either visas or prior permission to enter Hongkong (from all countries but China and Macau); then travel from Macau was

put on a balancing quota system whereby the number of entrants may not at any time exceed the number of departures; then screening was introduced on the land frontier; and finally, prior permission to enter the Colony was required in respect of all passengers from Chinese ports. This control has been organized and operated by the Police with the assistance of 3 extra clerks. It has been successful because of its simplicity, but it is a burden which will be thankfully discarded as soon as opportunity offers.

The work of the Boarding Staff increased, the comparative clearances being as follows:—

	1948/49	1949/50
Ships	6,835	8,942
Trains	1,178	864
Aircraft	8,184	11,029

In addition to the extra work in clearances, check points on the border had to be staffed to screen the hordes of pedestrians whose numbers ran up to about 90,000 inward and outward movements per week.

The number of non-Chinese entrants was about the same as last year i.e. 44,000 odd. Registrations of non-Chinese aliens dropped from 2,163 to 1,830, but transients of the same class rose from 1,443 to 2,164.

The increase of labour was also reflected in the Passport Office, which issued:—

	1948/49	1949/50
New passports	952	1,394
Renewals	315	176
Endorsements	1,502	1,692
Emergency Certificates	2,229	1,650
Visas	8,628	14,084
Certificates of Identity	118	299
Nationalisation documents ..	—	79

The issue of nationalisation documents was a new commitment taken over from the Colonial Secretariat. No fewer than 6,856 official signatures were issued. Revenue rose from \$95,041.35 to \$141,184.95; this is however still well below the cost of operating the Department and would bear but a fractional relation to the cost if the Department were not operated by the Police.

STATE OF TRAFFIC

The only improvement made during the year was the creation of a "silence zone" in the centre of the city in its most congested area. Despite scepticism, the scheme worked well and provided a most impressive display of mass public discipline, all the more remarkable in a city almost entirely populated by Chinese.

The total number of registered vehicles increased from 11,628 to 15,053, to which should be added 2,992 Services vehicles, making a grand total of 18,045. The civilian figures for last year and this are as follows:—

	1948/49	1949/50
Omnibuses	266	352
Tram cars	103	103
Private cars	6,246	8,295
Lorries	1,988	2,331
Motor cycles	798	974
Taxis & public hire cars	633	632
Rickshaws	946	944
Trailers	4	10
Hand trucks	3	3
Tricycles, goods	730	816

In addition, there were 669 Government vehicles of various kinds and 27 public chairs.

Accidents:—The drop in the number of accidents from 8,110 in 1947/48 to 6,572 in 1948/49 was not maintained. There was an increase to 9,178 during 1949/50, 4,704 in Hongkong and 4,503 in Kowloon and the New Territories. The comparative figures are:—

	1948/49	1949/50
Fatal	88	140
Slight	2,028	3,137
Serious	534	677
Damage only	3,922	5,224

It is possible that part of this increase was due to a temporary change in policy whereby fewer prosecutions were brought in respect of traffic offences and more warnings were given. This policy was adopted as an experiment following upon criticism that there were too many prosecutions and the suggestion that better results would be achieved by issuing a mere warning in less serious offences. This has not proved to be the case as the figures for 1949-50 will show and it is not therefore intended to proceed further with the experiment.

Examinations:—Despite the fact that 9,505 aspirants underwent tests for a full driving licence, there were still 30,106 learners licensed. Of those tested, 4,334 were failed. The comparative figures for 1948/49 were 8,514 tested and 3,935 failed. The test continued to include optical and colour test. It is seldom realised that the are 2 full and 2 learners licences for every single motor-driven vehicle in the Colony and that this ratio has kept pace with the steady increase of vehicles.

Inspections of vehicles rose steeply from 27,882 to 46,816, of which 25,696 were motor and 21,120 other vehicles. Revenue rose in sympathy with the increase of work and \$2,304,942 was collected by the Police compared with \$1,843,543 last year.

MISCELLANEOUS DUTIES

Special Duties:—The general expansion applied also to Special Duties, the comparative average daily absorption being:

	1948/49	1949/50
Static guards	55	74
Casual guards & escorts ..	22	77
Regular escorts	31	26
Daily loss	108	177

Dogs:—Licences issued by the Police rose from 12,102 to 13,764, distributed as follows:—

	Dogs	Bitches	Fees
Hongkong Island	3,702	2,705	64,074
Kowloon & New Territories	3,803	3,555	73,480
	7,505	6,250	\$137,554

Arms:—There was no change in the policy of restriction for all weapons but shot guns. The comparative figures for licences in force were:—

	1948/49	1949/50
Revolvers	74	89
Pistols	43	70
Shot guns	708	911
Rifles, various	242	316
Rifles, .22	367	367
Rifles, air	79	96
Pistols, air	3	4
Musket	1	1
Captive bolt pistols	2	2
Swords and bayonets	28	49
Hunting knives and daggers ..	207	281
Fighting irons, etc	61	636
Cannon	1	1

In addition special permits were issued for 387 Police rifles on issue to village guards and 88 rifles, 100 cannon and 2 Browning automatic guns were permitted on junks for self protection.

Narcotics:—The figures for action under this head are as follows:—number of opium divans raided 1,124, keepers prosecuted 921, smokers prosecuted 5,299, heroin divans raided 14, keepers prosecuted 15, smokers prosecuted 47, combined opium and heroin divans raided 6, keepers charged 6, possession of opium pipes 774, keepers additionally prosecuted for possession 512, keepers prosecuted as principal tenants 65, principal tenants (not keepers) prosecuted 19, landlords prosecuted 3, storage of opium 8, assisting in the management 5, manufacturing opium 8.

FINANCIAL

Last year the authorized estimates of \$10,428,681 were exceeded by \$281,280 making a total expenditure of \$10,709,961. In the year under review, the authorized estimate rose to \$12,633,722 and was again exceeded by \$171,091.22 making an actual expenditure of \$12,804,813.22 for 1949/50.

The estimated revenue from Police sources of collection was \$2,380,188. The actual revenue collected was \$2,946,816.88 derived as follows:—

	Estimated \$	Actual \$
Ricences		
Arms	20,000.00	53,270.00
Auctioneers	1,800.00	1,800.00
Billiard Tables	6,000.00	3,300.00
Dance Halls	7,200.00	11,050.00
Dogs	80,000.00	143,446.00
Game	32,000.00	39,700.00
Marine Store		
Dealers	45,000.00	50,000.00
Massage Halls	1,200.00	800.00
Money Changers	56,500.00	59,550.00
Pawnbrokers	128,500.00	142,000.00
Printing presses	8,750.00	9,240.00
Theatres	15,438.00	13,429.00
Vehicles, motor	1,104,000.00	1,238,687.50
" drivers	160,000.00	201,113.25
" other	30,000.00	38,080.00
" driver	1,500.00	2,440.00
" foreign reg.	500,000.00	704,821.12
Skating Rinks	300.00	900.00
Fees		
Driving tests	60,000.00	85,580.00
Traffic permits	16,000.00	18,441.00
Passports	80,000.00	108,735.00
Sale of Misc. Stores	20,000.00	20,434.01
	\$2,880,188.00	\$2,946,816.88

NORTH POINT WHARVES, LIMITED

At the annual meeting of the North Point Wharves, Ltd., held last week, it was shown that a profit of \$849,000 was the result of the past year's working—an improvement of \$336,000 as compared with 1949. A dividend of 6% tax free was declared. After adding the sum of \$504,555 brought forward from the previous account the sum of \$1,363,564 was available for appropriations. This was dealt with as follows: writing off preliminary expenses \$25,000; providing for taxation \$109,000; declaring a dividend of 6% \$422,700; leaving \$815,864 to be carried forward to the new account.

Reviewing the past year's working, the Chairman pointed out that the tonnage handled by the Company during the year was 80% higher than the previous year and that the number of vessels using the Company's wharves had doubled in number. The year had been one of continued progress and "the dispatch given to all vessels using the Com-

pany's facilities has been favourably commented upon by the vessels' agents and ships' personnel. While the rate of discharge varies with the type of cargo handled, the lay out of our property and the mechanical handling aids installed permit discharge rates which are on a par with and in many instances superior to those in the major ports of the world. Our general cargo rate is limited by the ability of the steamers' tackle to deliver, and may be taken as 25 to 30 tons per gang hour. On bag cargo we can comfortably maintain a rate of 40 tons per hatch hour and in one case where the steamer could work two tackles in a hatch, the exceptional rate of 74 tons per hatch hour was maintained.

"In the recent discharge of a chartered vessel at our premises we averaged 40 tons per hatch-hour over a cargo of 10,000 tons earning for the charterer five days dispatch money. At the port of loading the vessel took 6½ days and was discharged by us in 5½ days."

* * *

HONGKONG COMMODITY MARKETS

There was little change in the local commodity markets compared with the previous week, except that the holiday observed on the occasion of the King's Birthday made it a short week for business. Most commodities remained firm, although buyers in the majority of cases were reluctant to pay the high prices quoted.

Uneasiness was caused by the institution of export control in West Germany and the Netherlands in respect to industrial chemicals. The Netherlands in particular have always been an important source for these goods, and uncertainty in regard to future supplies coupled with strong demands from China caused considerable increases in price.

The restrictions now placed by the Canton authorities upon the export of cassia lignea are considered partly due to the lack of interest shown by the United States and Europe in this product and also to the small-scale purchases indulged in by Indian and Pakistani dealers. The authorities have also been influenced by the growth in barter trade between China and the Soviet bloc, as Eastern Europe takes China products in exchange for machinery and petrol, metals and other essential supplies. The goods go by rail to the North and thence across Russia to Europe. Supplies of woodoil (tungoil) continue, however, to arrive from the mainland, and during May 3600 tons arrived in Hongkong from China ports.

The first shipment of general cargo received from Korea since the outbreak of hostilities arrived during the week. It consisted of soya beans, waste cotton, rapeseed, horsehair, Chinese herb medicines, ekk white and North China finished products. So far trade with Korea has shown no signs of improvement, but firms with connections in South Korea will

carry on exploratory trading with that country so far as possible.

Indicating the strict control exercised by the Hongkong authorities in connection with the procurement of essential raw materials, the Dept. of Commerce & Industry has announced the penalisation of three local business houses for gross abuses of the facilities afforded them by the withdrawal of further help in obtaining essential supply certificates for materials from any source whatsoever. For similar abuses three other import firms and two factories will not be assisted by the department for periods ranging from one to six months, and other cases are under consideration. Rigid checks are being enforced to ensure that goods imported under essential supply certificates reach only approved customers and that they are in fact used by them.

* * *

Cotton Yarn

Demand from Pakistan for Hongkong, spun cotton yarn 20's brought activity to the market, although local transactions were lacking with mainland dealers out of the market. Lucky Star 20's sold at \$2180 per bale cif Karachi; Yacht brand and Bat & Un brand 20's were nominally quoted at \$2100 and \$2120 per bale. Indian yarn continued slow; in 10's Gokak Mills sold at \$1500 per bale and Hingunghat at \$1485 per bale; in 20's sales were effected of Kotak & Co. and Proenix Mills at \$1980 each and Vijavalakshmi Mills at \$1990 per bale; in 26's Hindustan & Co. dropped to \$2165 per bale.

Cotton Piece Goods

With practically no business, cotton piece goods had a slow market and sellers were under the necessity of reducing prices on the few transactions taking

place. Indian 2293 grey sheeting fell to \$64 per piece and Luxmi Mill brand was quoted at \$62 per piece; Australian buyers were requiring white cloth, however, and Japanese Three Peaches went up to \$84.40/\$83.50 per piece while Double Swan brand was quoted at \$82 per piece.

Metals

Lessened demand from China slowed down transactions in Mild Steel Round Bars and prices at the close showed a falling tendency despite raised indent prices: 40' ½"-1" fell to \$68 per picul (133.3 lbs.) from \$70 at the beginning of the week, while ½" stood at \$78; 1½" and 1¼" were quoted at \$70 per picul as against \$72 previously. Mild Steel Plates were among the main objectives of mainland dealers and continuous buying pressure exerted, resulting in increased prices: 4'x8' ½" rose to \$138 per picul; 1/32" and 1/16" were offered at \$220 and \$200 respectively and 3/32" was quoted at \$190, while 3/16" and ¼" were offered at \$129 per picul. Galv. Iron Wire after the heavy buying of the previous week was left with lowered stocks, and prices improved in transactions with mainland dealers: G8 to G16 were especially popular, G8 sold at \$100 per picul, G10 was quoted at \$105, G12-G14 were firm with the former advancing to \$110 per picul and the latter to \$120, G16 was sold at \$130 per picul; G24 made a considerable increase to \$205 per picul, and G22 sold at \$185 per picul. With almost exhausted stocks, the prices of Galv. Iron Sheets were increased, but few transactions took place at the rates quoted: 3'x7' G31 (Japanese) was quoted at \$26.80 per sheet; G24 and G26 rose to \$2.10 per lb. and G28 was quoted at \$2.30 per lb.

New offers have been received from Japan on Blackplate for shipment in July, and as the prices quoted are lower than the U.S. indent prices, they have been welcomed by local indentors. With stringent export controls and a dull local market prospects are not very bright, and as charcoal plates may be exported in their stead, holders of Blackplate were willing to reduce their prices; U.S. G29 to G33 were lowered to \$175 per picul from the previous \$185, but were unable to find purchasers. U.S. Tinplate Waste, Waste, fell to \$175 per picul. Tinplate Waste Ends, coked, in 200-lb. case fell from \$275 to \$270 for 2" to 10", and 3" to 10" electrolytic was sold at the same price. British Tinplate 20"x28" in 200-lb. case was quiet at \$295 per case, only small sales being made to local factories and large-scale transactions being rare.

Industrial Chemicals

Transactions on the industrial chemicals market which were brisk at the commencement with dealers from China active, quietened down towards the close. Crown Quebracho Extract was in demand and rose to \$1.83 per lb., while Optimus Quebracho Extract fetched \$1.40 per lb. German Carbon Black in 145½-lb. case closed at \$2300 per case. British Ammonia Chloride sold at \$1700 per ton. Belgian Lithopone 30% changed hands at \$1.30 per lb. U.S.A. Caustic Soda in 700-lb.

drum was offered at \$470 per drum. U.S.A. Vaseline, white, in 377-lbs. drums continued in demand, selling at \$1.93 per lb. British Formalin in 448-lbs drum sold at 81 cents per lb. ICI Red Moon Ammonium Chloride was transacted at \$1800 per ton. Zinc Oxide 99%, Indian product, White Seal was transacted at \$2.80 per lb.

China Products

On the whole the market in China products continued firm, except in a few items, although falling export demands and an increase in some quotations from the mainland, as a result of the growing overland trade with East Europe, limited

the volume of transactions. Woodoil (tungoil) was taken mainly by Australian and African buyers. Following a rise in Canton, woodoil in bulk was quoted at \$285 per long ton c. & f. Europe while export quality in drums rose to £311 per long ton. Transactions, however, are limited by the fact that European merchants are still offering not more than £275 per long ton. The local market price, without drums, for both unprocessed and export qualities increased, to \$257 per picul ex-godown for the former and \$259 for the latter. Teaseed oil was quiet, lacking export demand: the price locally stood at \$258 per picul without transactions. Aniseed oil was dull; with plentiful

arrivals and few transactions the price fell to \$1250 per picul. Cassia oil was also quiet, but with reduced stocks the price showed an increase to \$2400 per picul.

The issuance of export permits for Cassia Lignea having been suspended by the Canton authorities, local dealers showed a disinclination to part with their stocks. Cassia Lignea in 1-cwt. bale 1st qual. West River (new) rose to \$76 per picul f.o.b. and the 80-lb. bale to \$75; the loose packing sold for \$64 per picul. Ramie, white (Hunan), being in short supply and with interest shown by Japanese and European dealers rose to \$300 per picul, while the Szechuen Ramie Fibre rose to \$296 per picul.